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Marketing in the Age of Connection

How to harness **Alexa, mobile, social, and blockchain** to meet your customers wherever they are

Plus: The marketing message that works with Republicans but not Democrats

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Meet Your New Marketing Tools

TECHNOLOGY IS RESHAPING the relationship between brands and their customers. But each new social platform, AI assistant, and augmented reality app comes with its own strengths and challenges for companies: They can help you foster trust—or they can alienate your consumers. This collection offers HBR's best advice on how to get the greatest value from the new marketing tools at your disposal.

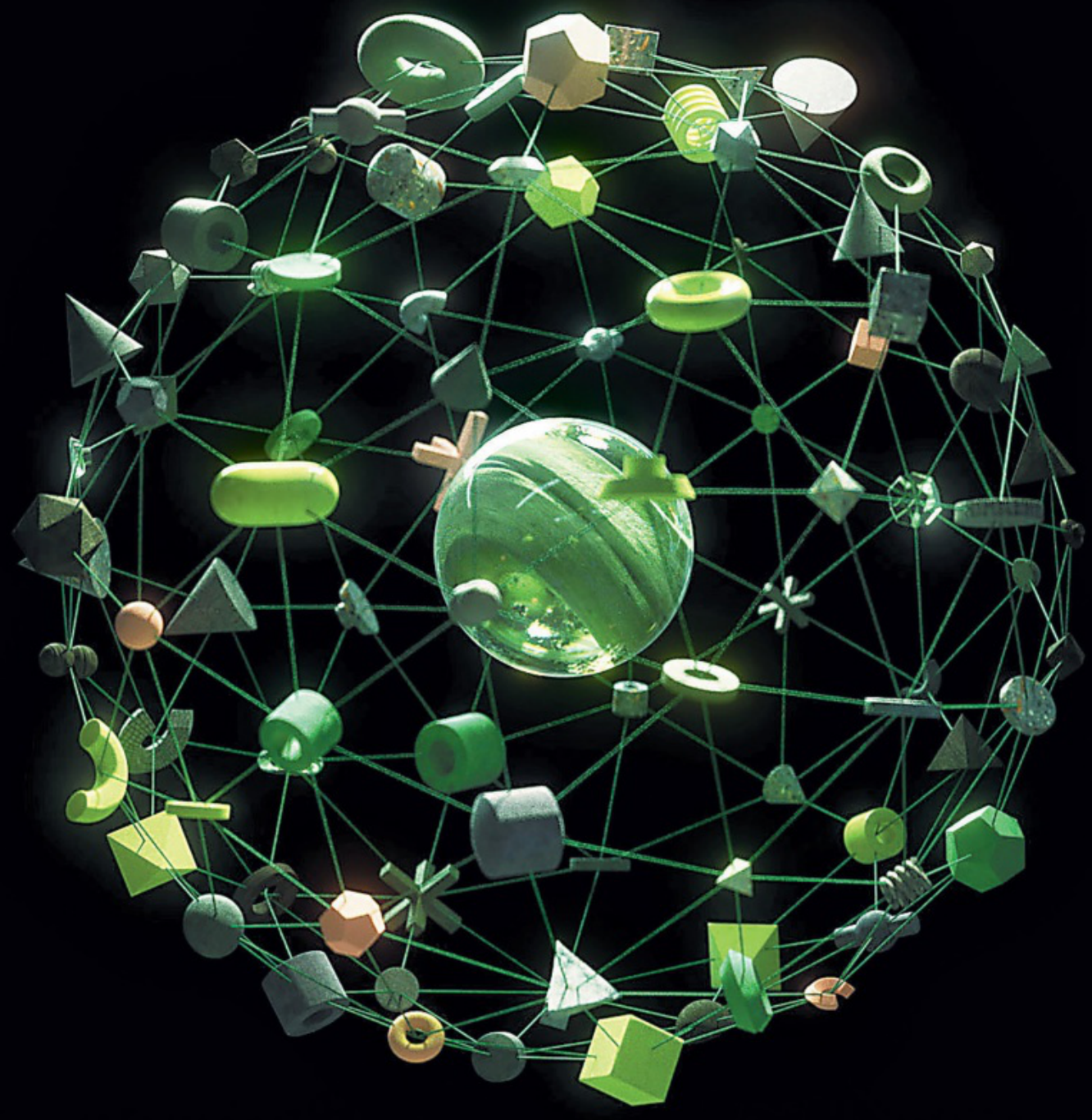
For example, it's easy to succumb to the temptation to use social media only to promote your products and boost your earnings. But, warns Bain & Company's Rob Markey in "Are You Undervaluing Your Customers?," doing so without also building consumer trust will erode your customer value—and, soon enough, your earnings too.

That's in part because users are fed up with companies' branded content in their feeds. Instead, they are creating private groups online around narrow areas of deep interest, along with products and practices they develop themselves. These might be group chats on platforms like WhatsApp or Facebook Messenger, small communities hosted on Facebook Groups, or multiplayer games with chat features like Fortnite. Companies must earn trust to gain entrance into these new spaces and be part of the conversation, branding expert Sara Wilson explains in "The Era of Antisocial Social Media."

But in the world of AI assistants, building that kind of trust is more difficult because Alexa, Siri, and Google Assistant stand squarely between your brand and your consumer, recommending your products and aggregating their data. As these household bots prompt more and more commerce, brands will need to navigate partner relationships and privacy issues to maintain their relationships with their customers. (For more, see "Marketing in the Age of Alexa," by Niraj Dawar.)

Ultimately, it's not the technologies but the connections they spark that will define how your company competes in the marketplace.

– The Editors



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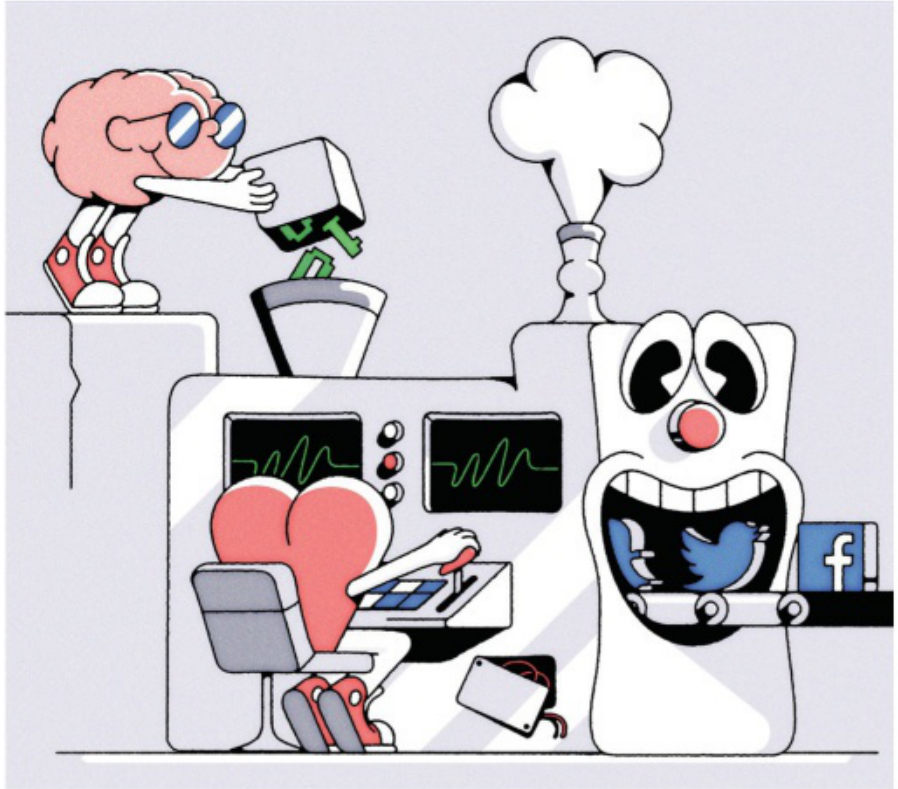

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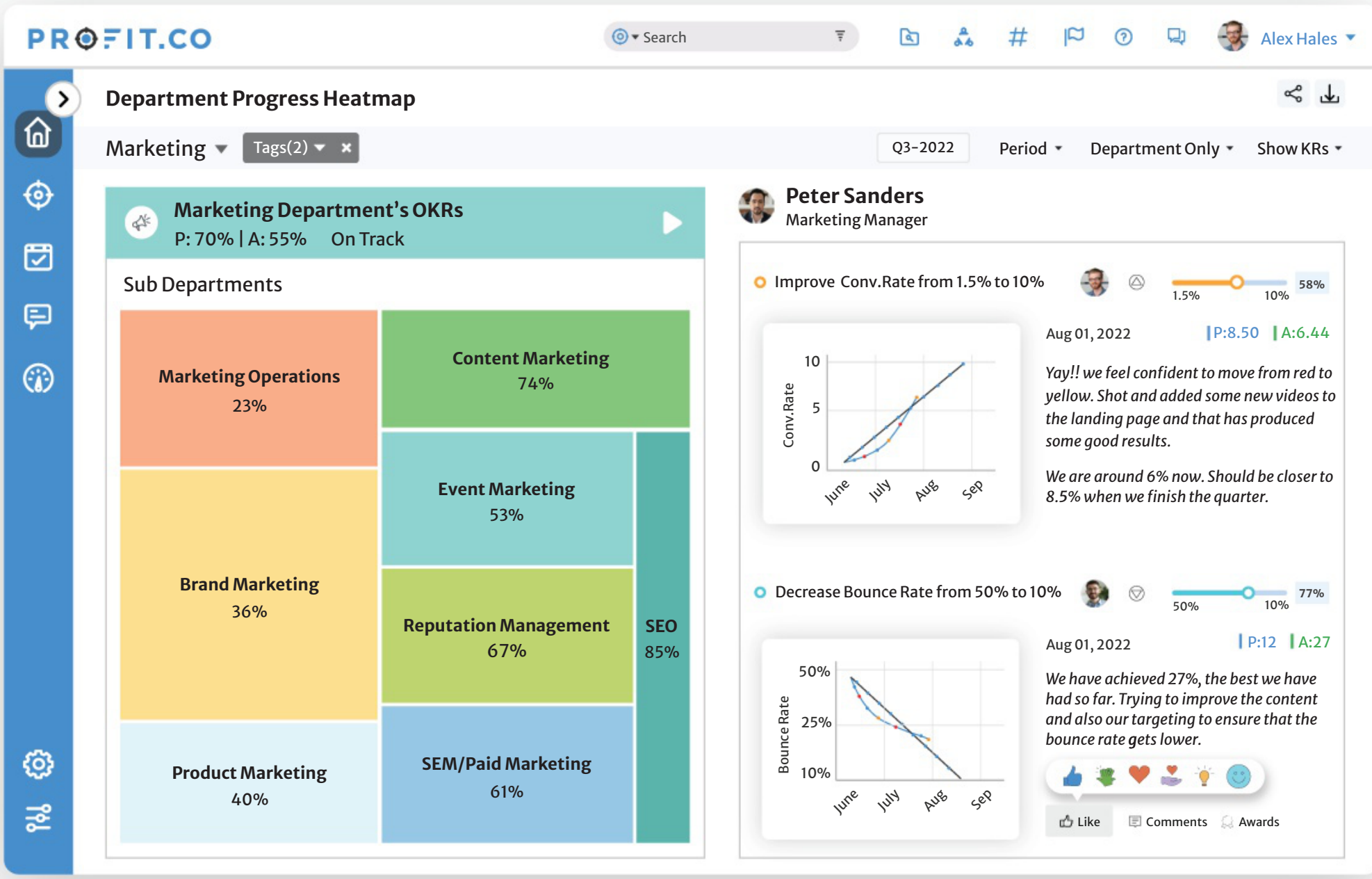

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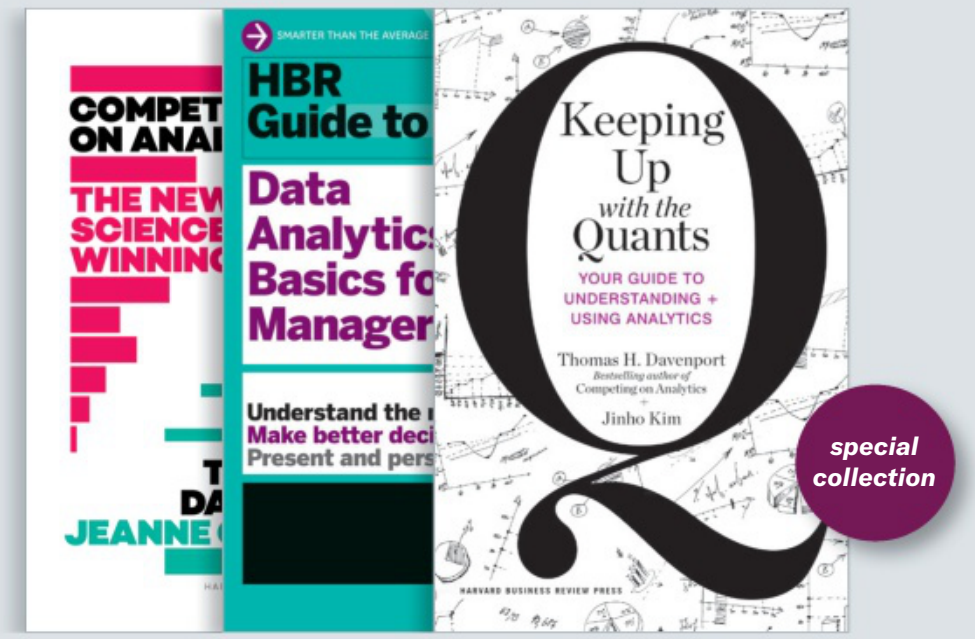

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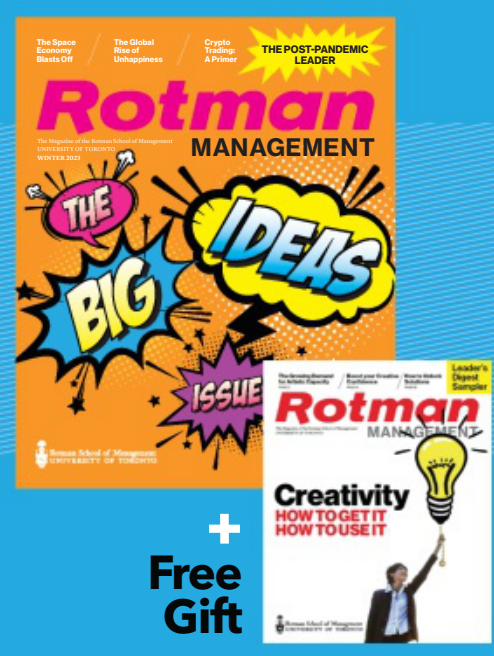

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The Age of Continuous Connection

New technologies have made 24/7 customer relationships possible. It's time to change your business model accordingly.

→ by NICOLAJ SIGGELKOW and CHRISTIAN TERWIESCH

A SEISMIC SHIFT is under way. Thanks to new technologies that enable frequent, low-friction, customized digital interactions, companies today are building much deeper ties with customers than ever before. Instead of waiting for customers to come to them, firms are addressing customers' needs the moment they arise—and sometimes even earlier. It's a win-win: Through what we call *connected strategies,* customers get a dramatically improved experience, and companies boost operational efficiencies and lower costs.

Consider the MagicBands that Disney World issues all its guests. These small wristbands, which incorporate radio-frequency-identification technology, allow visitors to enter the park, get priority access to rides, pay for food and merchandise, and unlock their hotel rooms. But the bands also help Disney locate guests anywhere in the park and then create customized experiences for them. Actors playing Disney characters, for example, can personally greet guests passing by ("Hey, Sophia! Happy seventh birthday!"). Disney can encourage people to visit attractions with idle capacity ("Short lines at Space Mountain right now!"). Cameras on a various rides can automatically take photographs of guests, which Disney can use to create personalized memory books for them, without their ever having to pose for a picture.

Similarly, instead of just selling textbooks, McGraw-Hill Education now offers customized learning experiences. As students use the company's electronic texts to read and do assignments, digital technologies track their progress and feed data to their teachers and to the company. If someone is struggling with an assignment, her teacher will find out right away, and McGraw-Hill will direct the student to a chapter or video offering helpful explanations. Nike, too, has gotten into the game. It can now connect with customers daily, through a wellness system that includes chips embedded in shoes, software that analyzes workouts, and a social network that provides advice and support. That new model has allowed the company to transform itself from a maker of athletic gear into a purveyor of health, fitness, and coaching services.

It's easy to see how Disney, McGraw-Hill, and Nike have used approaches like these to stay ahead of the competition. Many other companies are taking steps to develop their own connected strategies by investing substantially in data gathering and analytics. That's

Illustration by **JIAQI WANG**

great, but a lot of them are now awash in so much data that they're overwhelmed and struggling to cope. How can managers think clearly and systematically about what to do next? What are the best ways to use all this new information to better connect with customers?

In our research we've identified four effective connected strategies, each of which moves beyond traditional modes of customer interaction and represents a fundamentally new business model. We call them *respond to desire, curated offering, coach behavior,* and *automatic execution*. What's innovative here is not the technologies these strategies incorporate but the ways that companies deploy those technologies to develop continuous relationships with customers.

Below, we'll define these new connected strategies and explore how you can make the most of the ones you choose to adopt. But first let's take stock of the old model they're leaving behind.

Buy What We Have

Most companies still interact with customers only episodically, after customers identify their needs and seek out products or services to meet them. You might call this model *buy what we have*. In it companies work hard to provide high-quality offerings at a competitive price and base their marketing and operations on the assumption that they'll engage only fleetingly with their customers.

Here's a typical buy-what-we-have experience: One Tuesday, working from home, David is halfway through printing a batch of urgent letters when his toner cartridge runs out. It's maddening. He *really* doesn't have time for this. Grumbling, he hunts around for his keys, gets into his car, and drives 15 minutes to the nearest office supply store. There he wanders the aisles looking for the toner section, which turns out to be an entire wall of identical-looking cartridges. After scanning the options and hoping that he recalls his printer model correctly, he finds the cartridge he needs, but only in a multipack, which is expensive. He sets off in search of a staff member who might know if the store has any single cartridges, and eventually he locates a manager, who disappears into the back of the store to check.

Much time passes. When the manager at last returns, it's to report regretfully that the store is sold out of single cartridges. Because he has to get his letters done, David decides to buy the multipack. He grabs one and heads to the checkout counter to pay, only to find himself waiting in a long line. When he finally gets home, an hour or two later, he's not a happy guy.

We find it helpful to break the traditional customer journey into three distinct stages: *recognize,* when the customer becomes aware of a need; *request,* when he or she identifies a product or service that would satisfy this need and turns to a company to meet it; and *respond,* when the customer experiences how the company delivers the product or service. At each of these stages, David suffered a lot of discomfort, but at no point along the way did the toner company have any way of learning about his discomfort or alleviating it. Company and customer were poorly connected throughout, and both parties suffered.

It doesn't have to play out that way. Each of our four connected strategies could have helped improve David's customer experience at one or more of the stages and helped the company strengthen its business.

Let's explore specifically what each strategy entails.

Respond to Desire

This strategy involves providing customers with services and products they've requested—and doing so as quickly and seamlessly as possible. The essential capabilities here are operational: fast delivery, minimal friction, flexibility, and precise execution. Customers who enjoy being in the driver's seat tend to like this strategy.

To provide a good respond-to-desire experience, companies need to listen carefully to what customers want and make the buying process easy. In many cases, what matters most to customers is the amount of energy they have to expend—the less, the better!

That's certainly what David wanted in his search for a toner cartridge. So let's imagine a respond-to-desire strategy that might serve him well in the future.

Say that upon realizing that he needs a replacement, David goes online to his favorite retailer, types in his printer model, and with just a click or two makes a same-day order for the correct cartridge. His credit card number and address are already stored in the system, so the whole process takes just a minute or two. A few hours later his

In many cases, what matters most to customers is the amount of energy they have to expend—the less, the better.

doorbell rings, and he has exactly what he needs.

Speed is critical in a lot of respond-to-desire situations. Users of Lyft and Uber want cars to arrive promptly. Health care patients want the ability to connect at any time of day or night with their providers. Retail customers want the products they order online to arrive as quickly as possible—a desire that Amazon has famously focused on satisfying, in the process redefining how it interacts with customers. Years ago it set up a "one click" process for ordering and payment, and more recently it has gone even further than that. Today you can give Alexa a command to order a particular product, and she'll take care of the rest of the customer journey for you. That's responding to desire.

Curated Offering

With this strategy, companies get actively involved in helping customers at an earlier stage of the customer journey: after the customers have figured out what they need but before they've decided how to fill that need. Executed properly, a curated-offering strategy not only delights customers but also generates efficiency benefits for companies, by steering customers toward products and services that firms can easily provide at the time. The key capability here is a personalized recommendation process. Customers who value advice—but still want to make the final decision—like this approach.

How might a curated-offering strategy serve David? Consider this scenario: He goes online to order his toner cartridge, and the site automatically suggests the correct one on the basis of what he has bought before. That spares him the hassle of finding the model number of his printer and figuring out which cartridge he needs. So now he just orders what the site suggests, and a few hours later, when his doorbell rings, he's had his needs smoothly and easily met.

Blue Apron and similar meal-kit providers have very effectively adopted the curated-offering strategy. This differentiates them from Instacart and many of the other grocery delivery services that have emerged in recent years, all of which are guided by a "you order, we deliver" principle—in other words, a respond-to-desire strategy. The Instacart approach might suit you better than spending time in a supermarket checkout line, but it doesn't relieve you of the burden of hunting for recipes and creating shopping lists of ingredients. Nor does it prevent you from overbuying when you do your shopping. Blue Apron helps on all those fronts, by presenting you with personally tailored offerings, creating an experience that many people find is more convenient, fun, and healthful than what they would choose on their own.

Coach Behavior

Both of the previous two strategies require customers to identify their needs in a timely manner, which (being human) we're not always good at. Coach-behavior strategies help with this challenge, by proactively reminding customers of their needs and encouraging them to take steps to achieve their goals.

Idea in Brief

THE OLD APPROACH
Companies used to interact with customers only episodically, when customers came to them.

THE NEW APPROACH
Today, thanks to new technologies, companies can address customers' needs the moment they arise—and sometimes even earlier. With connected strategies, firms can build deeper ties with customers and dramatically improve their experiences.

THE UPSHOT
Companies need to make continuous connection a fundamental part of their business models. They can do so with four strategies: respond to desire, curated offering, coach behavior, and automatic execution.

Which Connected Strategies Should You Use?

CONNECTED STRATEGY	DESCRIPTION	KEY CAPABILITY	WORKS BEST WHEN	WORKS BEST FOR
Respond to desire	Customer expresses what she wants and when	Fast and efficient response to orders	Customers are knowledgeable	Customers who don't want to share too much data and who like to be in control
Curated offering	Firm offers tailored menu of options to customer	Making good personalized recommenda-tions	The uncurated set of options is large and potentially overwhelming	Customers who don't mind sharing some data but want a final say
Coach behavior	Firm nudges customer to act to obtain a goal	Understanding customer needs, and ability to gather and interpret rich data	Inertia and biases keep customers from achieving what's best for them	Customers who don't mind sharing personal data and getting suggestions
Automatic execution	Firm fills customer's need without being asked	Monitoring customers and translating incoming data into action	Customer behavior is very predictable, and costs of mistakes are small	Customers who don't mind sharing personal data and having firms make decisions for them

Coaching behavior works best with customers who know they need nudging. Some people want to get in shape but can't stick to a workout regimen. Others need to take medications but are forgetful. In these situations a company can watch over customers and help them. Knowledge of a customer's needs might come from information that the person has previously shared with the firm or from observing the behavior of many customers. The essential capabilities involved are a deep understanding of customer needs ("What does the customer really want to achieve?") and the ability to gather and interpret rich contextual data ("What has the customer done or not done up to this point? Can she now enact behaviors that will get her closer to her goal?").

Here's what a coach-behavior strategy for David might look like: Perhaps the printer itself tracks the number of pages it has generated since David last changed the toner and sends that information back to the manufacturer, which knows that he will soon need a new cartridge. So it might email him a reminder to reorder. At the same time, it might encourage him to run the cleaning function on his printer—a suggestion that will help him avoid later inconveniences. Coached in this way, David will have his new printer cartridge before the old one runs out; he'll lose almost no time in replacing it; and he'll have a clean printer that performs at its best.

To implement coach-behavior approaches well, a company needs to receive information constantly from its customers so that it doesn't miss the right moment to suggest action. The technical challenge in this sort of relationship lies in enabling cheap and reliable two-way communication with customers. Traditionally, this had been difficult, but it's getting easier all the time. The advent of wearable devices, for example, allows health care companies to hover digitally over customers around the clock, constantly monitoring how they're doing.

Nike's new business model incorporates coach-behavior strategies. By making its customers part of virtual running clubs and tracking their runs, the company knows when it's time for their next workout, and through its app it can offer them audio training guides and plans. This kind of timely and personal connection builds trust and

Coaching behavior works best with customers who know they need nudging. In such situations a company can watch over customers and help them.

encourages customers to think of Nike as a health-and-fitness coach rather than just a shoe manufacturer, which in turn means that when the company's app nudges them to run, they're more likely to do it. This serves customers well, because it keeps them motivated and in shape. And it serves Nike well, of course, because customers who run more buy more shoes.

Automatic Execution

All the strategies we've discussed so far require customer involvement. But this last strategy allows companies to meet the needs of customers even before they've become aware of those needs.

In an automatic-execution strategy, customers authorize a company to take care of something, and from that point on the company handles everything. The essential elements here are strong trust, a rich flow of information from the customers, and the ability to use it to flawlessly anticipate what they want. The customers most open to automatic execution are comfortable having data stream constantly from their devices to companies they buy from and have faith that those companies will use their data to fulfill their needs at a reasonable price and without compromising their privacy.

Here's how automatic execution might work for David. When he buys his printer, he authorizes the manufacturer to remotely monitor his ink level and send him new toner cartridges whenever it gets low. From then on, the onus is on the company to manage his needs, and David is spared several hassles: recognizing that he's low on toner, figuring out how to get more, and buying it. Instead, he just goes about his business. When the time is right, his doorbell will ring, and he'll have exactly what he needs.

The growing internet of things is making all sorts of automatic execution possible. David's printer cartridge scenario isn't just hypothetical: Both HP and Brother already have programs that ship replacement toner to customers whenever their printers send out a "low ink" signal. Soon our refrigerators, sensing that we're almost out of milk, will be able to order more for delivery by tomorrow morning—but naturally only after checking our calendar to make sure we're not going on a vacation and wouldn't need milk after all.

Automatic execution will make people's lives easier and in some cases will even save lives. Consider fall-detection sensors, the small medical devices worn by many seniors. Initially, the companies who made them did so using the respond-to-desire model. If an elderly person who was wearing one fell and needed help, she could press a button that activated a distress call. That was good, but it didn't work if someone was too incapacitated to press the button. Now, though, internet-connected wearable technologies allow health care companies to monitor patients constantly in real time, which means people don't need to actively request assistance if and when they're in distress. Imagine a bracelet that monitors vital signs and uses an accelerometer to detect falls. If a person wearing the bracelet slips, tumbles down the basement stairs, and is knocked unconscious, the bracelet's sensor will immediately detect the emergency and summon help. That's automatic execution.

We're excited about automatic execution, but we want to stress that we don't see it as the best solution to all problems—or for all customers. People differ in the degree to which they feel comfortable sharing data and in having the companies serving them act on that data. One family might be delighted to receive an automatically generated personal memory book after a visit to Disney World, but another might think it's creepy and invasive. If companies want customers to make a lot of personal data available on an automated and continuous basis, they will need to prove themselves worthy of their customers' trust. They'll need to show customers that they'll safeguard the privacy and security of personal information and that they'll only recommend products and services in good faith. Breaking a customer's trust at this level could mean losing that customer—and possibly many other customers—forever.

A final important point: Given that companies are likely to have customers with different preferences, most firms will have to create a portfolio of connected strategies, which will require them to build a whole new set of capabilities. (See the sidebar "Which Connected Strategies Should You Use?") One-size-fits-all usually won't work.

Repeat

Earlier, we mentioned that we like to think of the individual customer journey as having three stages: *recognize, request,* and *respond*. But there's

actually a fourth stage—*repeat*—which is fundamental to any connected strategy, because it transforms stand-alone experiences into long-lasting, valuable relationships. It is in this stage that companies learn from existing interactions and shape future ones—and discover how to create a sustainable competitive advantage.

The repeat dimension of a connected strategy helps companies with two forms of learning.

First, it allows a company to get better at matching the needs of an individual customer with the company's existing products and services. Over time and through multiple interactions, Disney sees that a customer seems to like ice cream more than fries, and theater performances more than fast rides—information that then allows the company to create a more enjoyable itinerary for him. McGraw-Hill sees that a student struggles with compound-interest calculations, which lets it direct her attention to material that covers exactly that weakness. Netflix sees that a customer likes political satire, which allows it to make pertinent movie suggestions to her.

Second, in the repeat stage companies can learn at the population level, which helps them make smart adjustments to their portfolios of products and services. If Disney sees that the general demand for frozen yogurt is rising, it can increase the number of stands in its parks that serve frozen yogurt. If McGraw-Hill sees that many students are struggling with compound-interest calculations, it can refine its online module on that topic. If Netflix observes that many viewers like political dramas, it can license or produce new series in that genre.

Both of these loops have positive feedback effects. The better the company understands a customer, the more it can customize its offerings to her. The more delighted she is by this, the more likely she is to return to the company again, thus providing it with even more data. The more data the company has, the better it can customize its offerings. Likewise, the more new customers a company attracts through its superior customization, the better its population-level data is. The better its population data, the more it can create desirable products. The more desirable its products, the more it can attract new customers. And so on. Both learning loops build on themselves, allowing companies to keep expanding their competitive advantage.

Over time these two loops have another very important effect: They allow companies to address more-fundamental customer needs and desires. McGraw-Hill might find out that a customer wants not just to understand financial accounting but also to have a career on Wall Street. Nike might find out that a particular runner is interested not just in keeping fit but also in training to run a first marathon. That knowledge offers opportunities for companies to create an even wider range of services and to develop trusted relationships with customers that become very hard for competitors to disrupt.

We can't tell you where all this is headed, of course. But here's what we know: The age of buy what we have is over. If you want to achieve sustainable competitive advantage in the years ahead, connected strategies need to be a fundamental part of your business. This holds true whether you're a start-up trying to break into an existing industry or an incumbent firm trying to defend your market, and whether you deal directly with consumers or operate in a business-to-business setting. The time to think about connected strategies is now, before others in your industry beat you to it.

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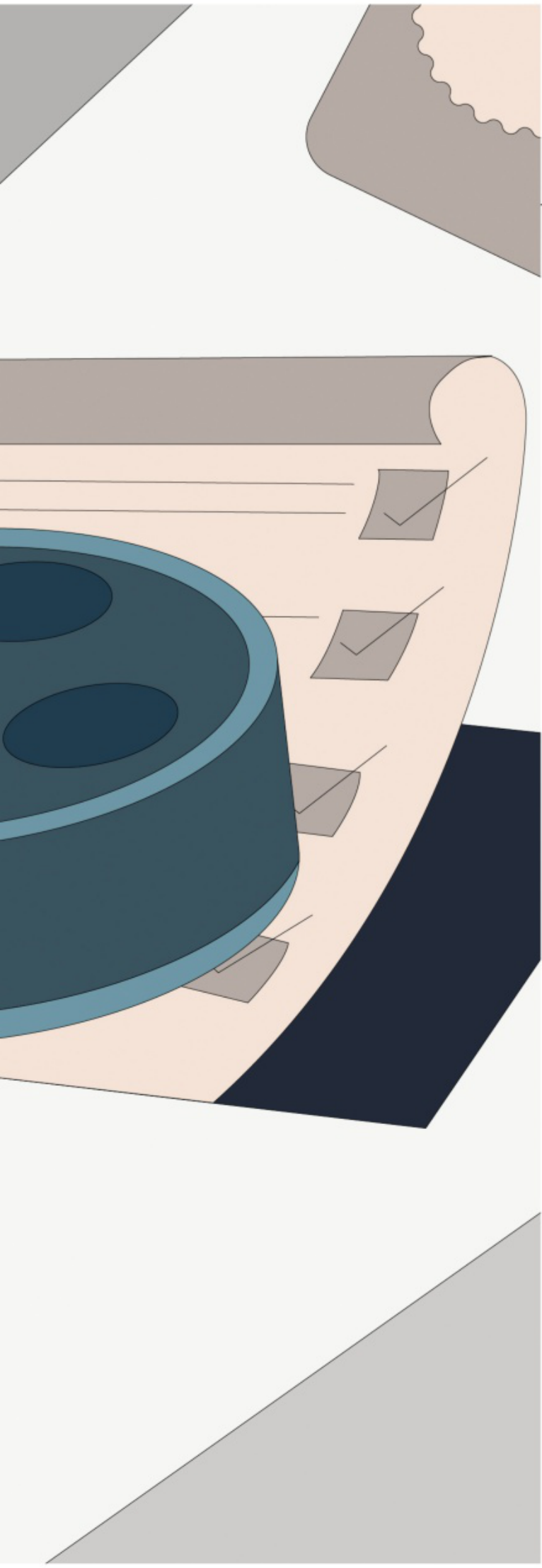

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Marketing in the Age of Alexa

AI assistants will transform how companies and customers connect.

→ by NIRAJ DAWAR

THE AUTONOMOUS CAR dropped Lori at her home and then left for its scheduled service at the dealership. It would be back in time to take her to the airport the next morning. On the way into her house, Lori gathered the drone deliveries from the drop box on her stoop. The familiar voice of Eve, a next-generation smart assistant like Alexa, greeted her in the foyer and gently reminded her of the travel plans for her upcoming conference in LA. Lori hadn't bothered to learn the details, since Eve had taken care of finding the best flight, seat, and hotel room that her company's expense policy would allow.

As she unpacked her grocery delivery, Lori saw that Eve had adjusted her weekly purchases, omitting perishables and adding travel-size toiletries and sunblock. Calculating that Lori was running low on detergent (and aware she'd be coming home with laundry to do), the bot had ordered more but switched to a new, less expensive brand that was getting good consumer reviews. And, knowing that Lori wouldn't want to cook, it had arranged for her favorite takeout to be delivered upon her return.

Thank goodness for Eve, Lori thought to herself. In addition to managing her shopping and travel, the bot tracked her spending and kept her costs down. Each quarter, for example, Eve checked all the telecommunications plans on the market and compared them against Lori's projected data usage. Her current plan gave her the best price for her mostly evening and weekend usage, but with her brother's 40th birthday approaching, Eve had anticipated a lot of data traffic among Lori's friends and

Illustration by **JIAQI WANG**

family and found a deal from an upstart firm that would save her money. That offer was instantly matched by Lori's current provider, a company that had paid to be featured on Eve and to have the right to meet competitors' prices. Lori relied on Eve for similar help with buying insurance, banking, and investment products, too. Sometimes she had to instruct her bot about her criteria and the trade-offs she was willing to make (for example, to forgo higher returns for a greener investment portfolio), but more recently, Eve had begun figuring out what product attributes she was after—even aesthetic ones—without having to be told.

Lori didn't know how she had ever coped without Eve. She had come to trust the bot not just for advice on complex purchases but also to make many of her routine decisions and to introduce her to new products and services she didn't even know she wanted.

Does this scenario sound far-fetched?

It isn't: All the technologies that Lori uses to interact with her world are either currently in development or already available—and being rapidly refined. Amazon, Google, Baidu, and other tech giants have launched artificial intelligence platforms with increasingly skilled digital assistants. While none have yet attained Eve's sweeping capabilities, that is clearly their goal—and it's just a matter of time before they get there.

AI assistants are rapidly colonizing consumers' homes. Analysts estimate that Amazon, for instance, has sold some 25 million Echo smart speakers, which people use to engage with its AI assistant, Alexa, and that number is expected to more than double by 2020. Once you take into account the millions of other devices that can already host Alexa through iOS or Android apps, Alexa's market penetration looks even higher.

Google Assistant, accessed chiefly through Google Home cylinders and Pixel phones, is now available on 400 million devices. Earlier this year Apple launched a Siri-enabled HomePod, and Samsung has acquired Viv, an intelligent assistant company founded by Siri's creators, to bolster its Bixby AI assistant platform. Microsoft and Tencent have platforms for their own AI assistants (Cortana and Xiaowei), and virtual assistants Chumenwenwen and Xiaoice (which is capable of uncannily human conversations and reportedly has 40 million registered users) are already popular in China.

Over the next decade, as these firms and others fight to establish the preferred consumer AI platform, AI assistants will transform how companies connect with their customers. They'll become the primary channel through

Will Brands Matter?

Thanks to AI platforms, the job of branded-goods companies is about to get much harder. Increasingly, AI assistants like Alexa will control access to those firms' customers, and brand recognition will play less of a role in product selection than dynamic and idiosyncratic AI algorithms will. That doesn't mean, though, that brands will no longer matter. They can respond in three ways:

First, they must invest aggressively in understanding the algorithms platforms use to recommend and choose products, including how they weight each brand for each consumer. In some categories and for some consumers, brands may be more important than price (Apple is an example). In others (say, toothbrushes), brands may be less relevant. AI algorithms will take such differences into consideration.

Second, brands should assess the value of maintaining direct ties with consumers. For some kinds of offerings, such as smart, connected consumer electronics, promoting brand awareness and loyalty outside AI platforms may be a good strategy. Smart products give companies a direct channel for communicating with customers and collecting data on them, which may make those companies less reliant on AI platforms. In such cases, ongoing investments in brand building will make sense.

Finally, while consumers are increasingly buying online, most purchases—currently about 90% of global retail sales—occur in brick-and-mortar stores. For the foreseeable future, consumers will continue to shop offline, where brands will remain influential. As consumers' purchasing shifts to AI platforms, brands should regularly evaluate how important the physical retail channels remain (that will vary widely by category) and adjust their strategy accordingly. Brands will still be the experts in the product categories in which they operate, with deep knowledge about consumer behavior and product innovation.

Consumers will shift their allegiance from trusted brands to a trusted AI assistant.

which people get information, goods, and services, and marketing will turn into a battle for their attention.

AI assistants will help consumers navigate their increasingly overwhelming number of choices. Every year people buy from thousands of product categories, deciding among dozens or hundreds of options in each. Even routine purchases can be time-consuming; nonroutine purchases often require sorting through the nuances of competing offers and are fraught with risk. While shopping for shoes may be fun, picking the right toothbrush from more than 200 products is pretty tedious. Choosing the wrong tennis racket can ruin your game, and buying an ill-considered cell phone plan or insurance policy can be costly.

AI assistants will not only minimize costs and risks for consumers but also offer them unprecedented convenience. They'll ensure that routine purchases flow uninterrupted to households—just as water and electricity do now—and manage the complexity of more-involved shopping decisions by learning consumers' criteria and optimizing whatever trade-offs people are willing to make (such as a higher price for more sustainability).

The effects on the business landscape will be far-reaching. Technologies that revolutionize the way consumers interact with a marketplace also tend to reconfigure its dynamics and reshape the companies that sell into it. In the 1950s, for instance, the rise of supermarkets made scale and mass media much more important to marketers, triggering a wave of consolidation among consumer goods companies. AI platforms and assistants will likewise change the game for brands and retailers, altering the relative power of players in the value chain and the underlying basis of competition.

These predictions grow out of our ongoing research into the ways technology has been redefining relationships among customers, brands, and firms. In the course of it, we have reviewed hundreds of relevant academic, industry, and news articles, and held in-depth discussions and structured interviews with industry experts and executives at Google, L'Oréal, EURid, and other global businesses. (Ivey Business School graduate student assistants Gobind deep Singh and Vivek Astvansh helped us with the early literature reviews.) In this article we'll outline in more detail the near-term changes we expect AI platforms to bring about and explain the implications they hold for marketing strategy.

Marketing on Platforms

Once the dust settles, we expect that just a handful of general-purpose AI platforms will be left standing. (See the sidebar "The Coming Platform Shakeout.") Most consumers will use only one, whose assistant will be incorporated into their homes, cars, and mobile devices. The platform will gather and deliver information, and the assistant will be the consumer's interface with home systems, appliances, and other machines. The assistant will also be the portal to an infinite shopping mall of goods and services. The more consumers use a platform, the better it will understand their habits and preferences,

Idea in Brief

THE NEW ENVIRONMENT
Over the next decade, smart assistants like Alexa will transform how companies sell to and satisfy consumers, and global firms will battle to establish the preferred artificial intelligence platform.

THE CHANGING BEHAVIOR
AI assistants will become trusted advisers to consumers, anticipating and satisfying their needs, ensuring that routine purchases flow uninterrupted to their households like electricity, and guiding them through complex buying decisions.

THE STRATEGIC RESPONSE
Brands will need to shift the focus of their marketing from consumers to AI platforms, seeking to influence platforms in order to get preferential positioning on AI assistants.

Customer acquisition will become even more of a science and will focus on a single channel—the AI platform.

The Coming Platform Shakeout

Today there are perhaps a dozen serious contenders in the nascent AI platform industry. But we expect that this field will eventually be narrowed down to only a few. What will drive this concentration, and how will winners be chosen?

For starters, the market has high barriers to entry. Large general-purpose AI platforms are extremely expensive to build and run. It took thousands of engineers several years to develop Amazon's Alexa, for instance. Besides committing vast internal resources to development, each player must establish an extensive ecosystem of providers that supply data, services, skills, and apps. To succeed, platforms need a large installed base and a wide range of capabilities. Those that achieve scale and scope will have a natural advantage: The more a platform can do reliably and well, the more loyal users will be to it. Over time it will learn consumers' preferences and habits, which will make it even better at anticipating and satisfying people's needs, which will make consumers use it more. Those dynamics, combined with a lack of data portability across platforms, will make AI platforms sticky. Advantages will accrue mostly to just a few large platforms. While smaller platforms such as Uber's or Expedia's may coexist for a time we expect they'll ultimately be incorporated into the large general platforms as vendors or as specific AI assistant skills.

and the better it will meet their needs—increasing their satisfaction in a self-reinforcing cycle.

Marketers' current obsession with creating an omnichannel customer experience will fade as AI platforms become a powerful marketing medium, sales and distribution channel, and fulfillment and service center—all rolled into one. The concentration of those functions within a few platforms will give their owners enormous clout, and branded products will find themselves in a weaker position. Consumer companies that feel that large retailers like Walmart wield too much power today will be even more alarmed by the might of AI platforms. As a major—or even primary—means of communicating with consumers, and the repository of reams of data about their habits, preferences, and consumption, the platforms will have a lot of influence over prices and promotions and the consumer relationship itself.

Brands today owe their success to their ability to signal quality and win buyers' loyalty. But in a world of AI platforms, marketers may find that consumers like Lori shift their allegiance from trusted brands to a trusted AI assistant. The activities that help brands cement relationships with buyers over time—understanding and filling people's needs, assuring quality, and consistently putting consumers' interests at the center—will in many cases be performed better by AI. In fact, we predict that AI assistants will win consumers' trust and loyalty better than any previous marketing technology. We therefore expect the focus of many brands to shift from reinforcing direct relationships with consumers to optimizing their positions on AI platforms. However, in selected cases it may still make strategic sense for brands to maintain strong ties with consumers outside the platforms. (See the sidebar "Will Brands Matter?")

These changes will have an impact on companies at three critical levels: customer acquisition, satisfaction, and retention.

Acquisition

With consumer data now being used to create finely targeted marketing, customer acquisition has become ever more efficient. Still, marketers' aim is far from perfect. Ads continue to be directed at consumers who aren't good prospects—and don't reach everyone who may be interested in an offering. Even when an ad does find the right audience, its message is often blunted by consumers' cognitive limitations: People might need to see the ad many times before it registers or may forget it entirely. They may remember only the parts that interest them (for example, the humor) but not the product's name or distinctive promise.

Those problems will matter less in the coming years, when the main target of the billions in annual spending on brand marketing will shift from forgetful, biased consumers to AI platforms that retain every last bit of information. Platforms will analyze that data, taking into account products' pricing, characteristics, past performance, and reviews (weighted by authenticity

and relevance) and the consumers' preferences and past behavior. Customer acquisition will become even more of a science and will focus on a single channel—the platform—rather than on multiple channels.

In this universe, influencing the platforms' algorithms will be the key to winning. It will be crucial for companies to understand the customized purchasing criteria that the AI applies on behalf of each consumer. Sellers will probably have to pay platforms to get that information—and to be "listed" on them, in much the same way that brands now pay shelving fees to brick-and-mortar retailers. Marketers can also expect to bid on or otherwise pay extra for preferential positions, just as hotels today bid to appear at the top of the results on Expedia, or marketers compete in Google's AdWords auctions to come up first in searches. Though Amazon says it has no plans to add advertising to Alexa, CNBC has reported that the company is talking with several consumer goods firms about promoting their products on the platform. Experiments "in the works," said CNBC, would allow Alexa to make product recommendations based on a user's previous inquiries ("How do I clean grass stains?") or past shopping behavior. We believe that product placement and recommendations on AI platforms are inevitable and will, in time, be a major source of revenue.

In different ways, all these payments will be for access to the consumer. Companies will essentially reallocate to the platforms what they spend today on advertising, listing and slotting fees, and retail commissions. Brands will shape their offers and innovation strategies around getting AI assistants to showcase their products.

The bustling ecosystem that now helps companies woo customers, including ad agencies and media buyers, will need to learn to market through AI platforms. Marketing services that target platforms will be even more accountable than media buyers are today and will need to show links to actual consumer behavior. Traditional market research may be supplanted altogether by the intelligence about consumers' actual behavior that brands will be able to buy directly from platforms.

Satisfaction

Customer satisfaction drives loyalty, word of mouth, market share, and profitability. No wonder marketers are fixated on monitoring it. Imagine, then, a world where reliable satisfaction data is easier to get from AI platforms than from consumers themselves.

A platform serves consumers by constantly anticipating their needs. To do that it must collect granular data on their purchasing patterns and product use and try to understand their goals: Do they want food products to improve their health, energy products to minimize their environmental impact, and financial products to increase their long-term returns? Or are their criteria taste, price, and short-term performance? Sophisticated AI platforms will go further and figure out the trade-offs consumers are willing to make: How much more will they pay for a more healthful product? How much room in a car will they sacrifice to get better fuel efficiency? AI platforms will even know whether consumers are likely to

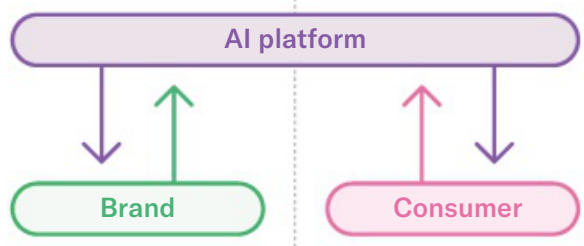
How AI Platforms Create Value

Platform provides brand

- Virtual shelf space
- A single channel for marketing, sales, and service
- Data on consumer preferences, purchases, and media exposure
- Payment for goods sold
- Product fulfillment
- A trust halo

Platform provides consumer

- Customized recommendations
- Automated routine purchases
- Convenience and savings
- Reduced complexity
- Continual scanning for better deals



Brand provides platform

- Listing and promotional fees
- Product information
- Innovations tailored to consumers' needs
- Knowledge about product category

Consumer provides platform

- Payment for goods
- Information on product preferences, purchases, and use
- Information on price sensitivity, risk tolerance, and privacy expectations
- Loyalty in exchange for good recommendations

Three Questions for Brands

1. Whom is the platform working for?
Before answering this question, let's apply it to traditional platforms. Consider credit card companies and brick-and-mortar retailers: Both perform functions—providing convenience, efficiency, and risk reduction—for the buyers and sellers they connect. AI platforms likewise work for multiple stakeholders, including brands. But bear in mind that if they don't serve the interests of the consumer, they won't be adopted. And the more consumers trust and rely on them, the more effective they are as a source of data and a channel for marketers. As with any well-functioning platform, creating value for parties on either side generates value for the platform itself.

2. What do we want from the platform?
The obvious but incomplete answer is, we want it to sell our products. However, at the outset marketers should not think of a platform principally as a sales channel; they should look at it as a source of information. For a price, AI platforms will offer a view of consumer behavior and motivations more detailed than anything that's ever been available before. That nuanced understanding will allow companies to redesign every aspect of marketing—from segmentation to pricing to product features and promotional offers—to better meet consumers' needs. Platforms in turn will promote the improved products—and become the superior sales channel marketers seek.

3. How can we make sure the platform chooses us?
Here, brands will have two levers. One will be to pay for preferential positioning; the other, and likely the most powerful, will be to continually innovate their offerings so that they align with customers' stated and implicit needs, drawing on data supplied by the platforms. This will require brands to sharpen their differentiation; hone their ability to compete on speed, quality, and cost; and recognize and respond to rapid or subtle shifts in consumer tastes.

adapt their requirements in different contexts—for example, if a person on a diet will make an exception for dessert when celebrating.

Because of all this, AI platforms will be able to predict what combination of features, price, and performance is most appealing to someone at a given moment. Ultimately, AI assistants may be able to satisfy customers' needs better than the customers themselves can. Relatively primitive recommendation engines are already moving in this direction, suggesting books, movies, and music that consumers didn't know they would enjoy.

AI platforms will lead to more-efficient sorting and matching in the marketplace. Consumers who prefer the Four Seasons, for instance, will be unlikely to be offered reservations at a Trump hotel by their platforms. So brands will want to sharpen their positioning in ways that the platforms will register.

Retention

Marketers assume that repeat purchases indicate customer satisfaction and are a sign of brand loyalty. Yet many customers keep buying a product not because it delights them but because they can't be bothered to explore alternatives if a brand is performing adequately. Put simply, most people have better things to do than evaluate the ingredients of laundry detergents. An AI assistant, however, does not. It can regularly reassess all brands in any category, whether laptops or chewing gum, and recommend a new one that might serve the consumer better. Some consumers may even like to switch things up just for the sake of variety—so their assistants, being aware of that, will periodically recommend new products they might like.

That routine reevaluation of purchases will force incumbent brands to constantly justify their positions. But it will also open opportunities for challengers. Competition will get more intense.

Though incumbents will need to innovate to hang on to customers, they'll be able to buy information from platforms that will help them inhibit brand switching. If a brand knows that a consumer is likely to defect (say, because she has indicated a desire for change to her assistant), it can compute retention metrics in real time to see whether she's worth keeping. If she is, the brand can make her a customized offer that reflects exactly what she needs to stay put. If the consumer accepts it, both she and the brand win: The brand keeps the business and the consumer gets a better deal. The AI platform is in the middle, serving both in ways that create value for each while generating revenue for itself.

On their part, challenger brands can use intelligence from a platform to acquire customers. Promotions through AI assistants will be the tool of choice for upstarts. Of course, once a challenger breaks in, it will be subject to threats from the incumbent and other rivals. The secret to competitive differentiation—and, hence, retention—will be constantly designing offers that meet a customer's evolving criteria. For brands, this will become as much a focus of innovation as developing better products is.

The Imperatives for Platforms

AI platforms will succeed only if consumers have faith in them. As one platform leader at Google told us, "Building trust will be the most important thing we do." To earn consumers' confidence, platforms must ensure three things: accuracy, alignment, and privacy.

Accuracy

By continually learning each individual's desires and requirements, the platform algorithms will hone their ability to please consumers. If a platform can recommend an alternative to a trusted brand that it thinks the consumer will like better, and the consumer is happier with the alternative, that platform will supplant the brand as the object of her trust.

Alignment

There's a built-in conflict of interest that platforms must manage carefully. On one hand, they must single-mindedly focus on meeting consumers' needs; if they fall short, it will erode trust. On the other hand, they'll have contractual arrangements to provide preferred placements and consumer data to brands. If people sense that an assistant is pushing a paying brand that isn't aligned with their needs, that too will undermine trust. One solution might be for platforms to be transparent about their relationships with brands, just as Google is today when it identifies some search results as ads. Another may be to give paid and unpaid recommendations equal weight; if a consumer asks an AI assistant how best to remove grass stains, the response might include both a paying bleach and a comment that generic bleaches can be just as effective. The brand gets its plug, and the assistant demonstrates that it's trustworthy.

Privacy

Platform owners, as well as marketers, will need to strike a careful balance between the use of personal information and AI performance. The more data gathered, the more accurate the platform—but the more exposed consumers may feel. A solution here could be to offer customized privacy settings, as Facebook now does, giving users control over what information they share and how widely. Another, less satisfactory solution might be to argue, as Google sometimes does, that privacy is protected because consumer data is handled by machines without human intervention.

Consumers have long been willing to give up personal information, and even privacy, for convenience. AI assistants will offer much greater convenience but be far more intuitive and intrusive than any software now in use, greatly magnifying the trade-offs.

ALL CONSUMER-FACING FIRMS can expect AI platforms to radically alter their relationships with customers. Their traditionally crucial assets, such as manufacturing capability and brands, will become less central as consumers' attention shifts to AI assistants, and the value of consumer data and AI's predictive ability soar. Push marketing (getting platforms to carry and promote a product) will become more important, while pull marketing (persuading consumers to seek products) becomes less so. The consumer will remain the target of brand-building efforts, but marketing that encourages trial and repeat purchases will be more effective when aimed at AI. Though the marketplace will be more efficient, companies will encounter intense pressure to offer consumers the best deal—the one most closely aligned with the preferences identified by AI gatekeepers.

For a long time, consumer goods companies, used to maximizing economies of scale because of their large fixed investments in production and brands, have zeroed in on one strategic question: How much more of our product can we sell? AI platforms will present a very different opportunity: to maximize the depth of the relationship with the consumer by offering a wide range of products—in other words, economies of scale. Investments in building trust with consumers and their AI assistants will be amortized by asking, What else does this buyer need? Superior marketing strategy will still matter—firms must acquire, satisfy, and retain consumers in the AI world—but what it involves is likely to change substantially.

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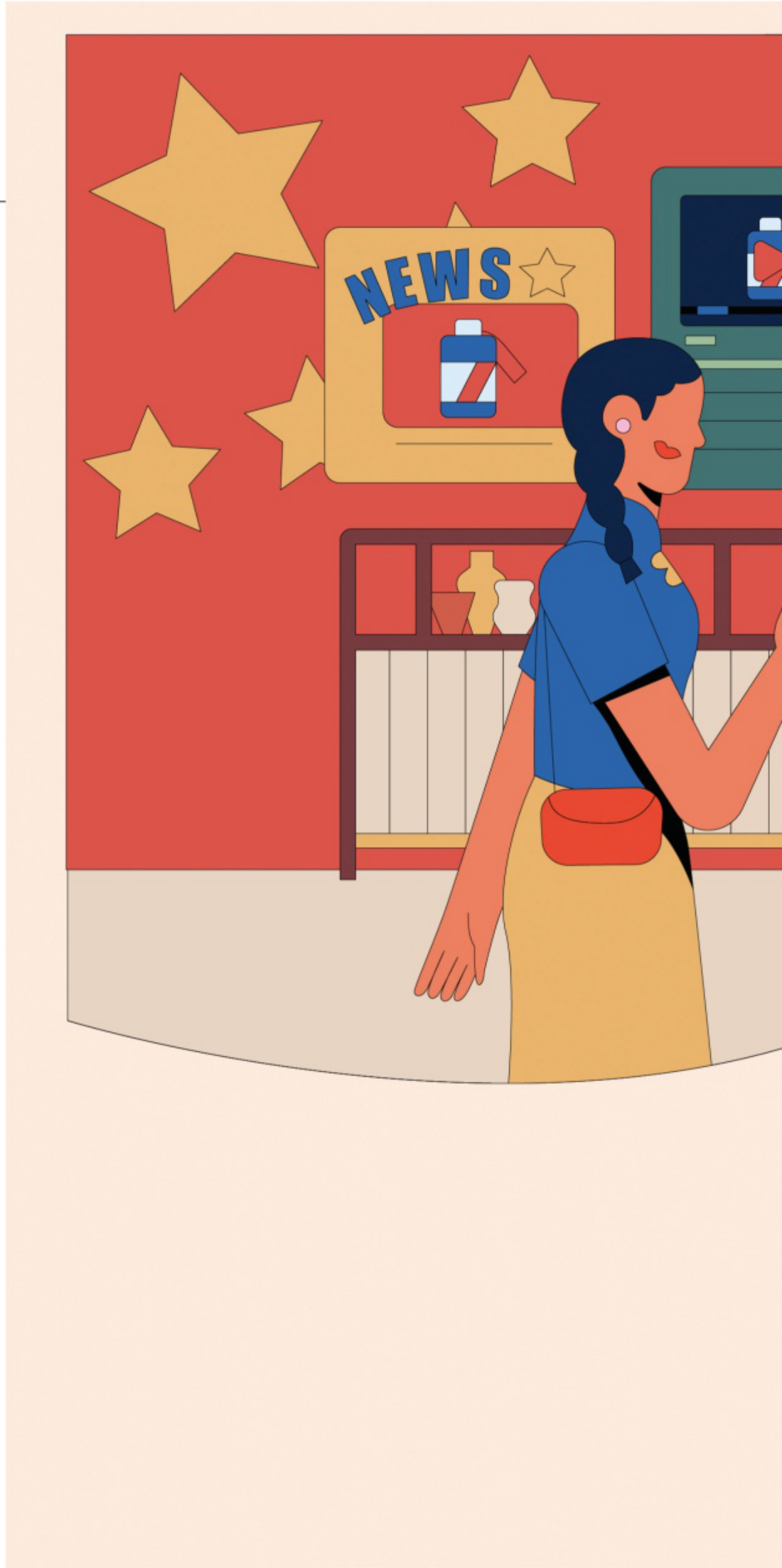

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What Western Marketers Can Learn from China

Think content, not channels or advertising

→ by KIMBERLY A. WHITLER

IN 2017, THE fast-growing Chinese liquor brand Xi Jiu wanted to launch an ad campaign to boost sales in anticipation of Chinese New Year. If Xi Jiu were a large Western company in a developed market, its brand managers would have begun laying plans many months in advance—consulting with an ad agency; allocating money to TV, online, and billboards; brainstorming creative approaches; and filming commercials.

But Xi Jiu's approach to its home market was entirely different: It partnered directly with Tencent News, China's most popular news app. Together, the liquor company and the technology firm created a series of hour-long, live-streamed

Illustration by **JIAQI WANG**

shows in which great chefs from different regions of China taught viewers to cook local specialty dishes, pairing them with offerings from the liquor brand. The native-advertising content was highlighted across Tencent's news, social, entertainment, and gaming platforms, and more than 1.2 million people clicked through on their mobile phones to watch each day. Instead of spending months meticulously planning the campaign, Xi Jiu and Tencent produced the content—conceiving, negotiating, creating, and airing the shows—in just five days. And when the programs aired, there was no mention of price promotions or discounts on the liquor—the campaign was aimed entirely at building consumer awareness and engagement.

For decades now, Western executives of multinational brands seeking to expand globally have operated under a simple premise: Although marketing content and channel selection should be customized to local markets, Western marketing principles are universal. Firms are particularly quick to export their media and ad strategies to developing markets, where advertising and media are more recent developments. After spending time in China conducting in-depth interviews with C-level leaders from a dozen Chinese companies (including Tencent, Oppo, and Mengniu) and 15 multinationals with a significant presence in China (including McDonald's, Visa, and BMW), I am convinced that this view is wrong.

Chinese marketers have developed a unique approach tailored to China's mobile-first consumer. It relies on the creation of shareable, viral content and the presence of dominant, channel-straddling media giants. It is faster, cheaper, and in some respects more effective than the traditional Western marketing paradigm. It also is more embracing of risk. For companies that hope to enter China or grow existing operations there, understanding the Chinese marketing mindset will be essential to achieving success. And although the holistic approach was born out of the idiosyncratic structure of the Chinese market and thus may not be directly applicable to every country's media landscape, in some ways it may be better suited to today's global marketplace than traditional Western methods are.

As a former marketing head who worked to build global brands in overseas markets, and now as an academic studying corporate marketing, I am both thrilled and alarmed by what's happening in China. It's thrilling to see a new generation of marketers devising completely new ways to engage with consumers. It's alarming because Western managers, entrenched in their established mindset, may underestimate the power of the new competencies or dismiss them as a market-specific, tactical nuance. They do that at their peril, however: To compete effectively in China, Western companies must understand that marketing there is not business as usual—and ideally, they will learn to apply some of these lessons to developed markets, too.

China's Market Is Fundamentally Different

China's evolving approach to marketing is different from that of developed economies because its market is different, in four key respects:

Channel-straddling media giants. The first and most important difference is the presence of channel-straddling media powerhouses. These include, most notably, Baidu, Alibaba, and Tencent, which together are known by the acronym BAT. To put this in a Western context, imagine if Amazon, Bank of America, Google, Facebook, Activision Blizzard, CNN, and ESPN were all owned by one company. That's essentially how the big conglomerates work in China, with the BAT companies controlling most of the digital content across industries. For example, Tencent owns the world's largest gaming platform, a wide array of news agencies, the dominant social media platforms in China (Weixin and WeChat), financial services platforms (WeChat Pay and QQ Red Envelope Mobile Pay), retail investments (Tencent is the second-biggest shareholder in JD.com, one of China's largest online retailers), Tencent Video (the largest streaming service in China, with over 43 million subscribers), and Tencent Sports (China's number one online sports-media platform). Almost all media activity in China is consolidated on mobile devices, with consumers spending, on average, seven hours a day looking at their phones—approximately twice as much time as Americans spend. Remarkably, 55% of all online time spent by Chinese consumers is within the Tencent ecosystem of companies, according to data from Kleiner Perkins.

The regulatory environment in the West prohibits such concentration, and as a result, Western marketers have

Western managers, entrenched in their established mindset, may underestimate the power of China's new competencies.

been trained to use highly fragmented, channel-centric strategies to reach consumers. Marketing theories developed in this kind of media landscape don't easily translate to China—and perhaps more important, they may blind Western companies to the opportunities that exist when data is aggregated within a single, channel-straddling company.

A world of closed-loop data. In the West, marketers typically analyze data from, for instance, Facebook, CNN, *People*, and the *Wall Street Journal* separately, because information isn't easily connected across different channels at the consumer level. However, as much as privacy advocates dislike the linking, selling, and integrating of information, companies need access to closed-loop data at the individual level across every aspect of a person's life in order to develop deep consumer understanding and improve marketing relevancy. This is precisely the kind of integrated data that the BATs have. Marketers can see how a particular customer approaches banking, entertainment, gaming, social media, and news, and then create more-relevant and -engaging experiences for them.

Consider a U.S. computer programmer I'll call Joe. He is 28 years old and earns $70,000 a year. He buys most of his clothing from one retailer, which captures every purchase he makes at its stores and website. But Joe's life consists of much more than stocking his wardrobe. Like most people, he also spends a lot of time on his smartphone. Every morning, he checks his social media accounts. He plays an online game on the bus ride to work. Over lunch, he scans the sports news. During the commute home, he reads an online book. Spotting a coupon for pizza on Facebook, he might order one. He gets an email about a concert and orders tickets before it sells out. And he buys a new shirt for the show.

This shirt purchase is the only data point the clothing retailer sees, just as the pizza store notes only the coupon's effect and the concert vendor captures just the ticket purchase. Each company has a little window into Joe's life; this context explains Western marketers' mastery of channel-based marketing—via TV, radio, print, digital, social media, and so forth. By contrast, the BATs' vast data ecosystem allows an integrated view of customers' lives across all channels, instead of just snippets. With this holistic understanding, the marketer can create programming that ties shopping, gaming, news, reading, video-watching, and celebrity-following habits into smarter, more contextually relevant engagement.

Let's say that Joe regularly appears on his social media pages wearing college basketball jerseys and spends hours playing Fortnite. In a world of closed-loop data, the marketer could reach Joe across the different areas of interest and create content that resonates with him (such as using game-based formats). This is a simple example; now imagine the potential if you were able to integrate across all aspects of a consumer's life. In China, this is becoming more common. Although some people fear that Western companies such as Google can peer into every nook of our lives, their hold

Idea in Brief

THE PROBLEM
Western executives of multinational brands seeking to expand globally are quick to export their media and ad strategies to developing markets. But these theories and practices, created largely in the West, are not enough to succeed in China's new landscape.

THE CONTEXT
Chinese marketers rely on the creation of shareable, viral content and the presence of dominant, channel-straddling media giants. The Chinese approach is faster, cheaper, and often more effective than Western marketing is. It's also more embracing of risk.

THE WAY FORWARD
Western firms must learn to adapt in six ways to successfully market in China. These techniques may also help them compete around the world.

Western firms emphasize scale and efficiency (a profit mindset) while Chinese marketers focus on speed and growth (a revenue mindset).

on customer data is significantly more limited than the BATs'.

A mobile-first market development. In the West, media developed sequentially over the past century, with radio giving way to TV, followed by the personal computer and then mobile. In China, the evolution happened much more rapidly, essentially leapfrogging the PC to move straight to mobile. Thus, the marketing theory, principles, and methods developed in China were built on the assumption that mobile devices are the primary way to reach consumers. Tsuyoshi Suganami, president of Amplifi China (Dentsu Aegis Network), pointed out that on China's biggest shopping day, known as Double Eleven or Singles Day, consumers bought over $25 billion worth of merchandise—more than U.S. customers bought on Black Friday and Cyber Monday combined—with 90% of the purchases made on mobile phones.

For decades, Western marketers have had multiple open channels through which to reach consumers: TV, direct mail, magazines, radio, billboards, newspapers, email, websites, and so forth. These vehicles create a promotion-centric mindset, partly because each needs to generate immediate results to prove that it's earning an ROI on the ad spend. In contrast, China's mobile-centric platform has enabled marketers to focus on content-based experiences that will connect with consumers and change behavior quickly. "The Chinese approach starts with thinking about content, information, and knowledge that could be engaging and shared," said Danielle Jin, chief marketing officer for Visa Greater China. "It isn't about advertising and price promotions."

A focus on speed. Marketers in China make decisions more quickly than their Western counterparts do, mainly because firms in that fast-growing economy need to show momentum to keep investors on board. Scott Beaumont, head of Google's China and Korea sales operations, put it this way: "Companies are in a race to determine which two or three will be left standing, and as soon as it's clear that a company won't be, funding dries up." Marketers, he noted, recognize that a campaign needn't be perfect as long as it makes clear progress toward driving awareness and traffic.

Western marketers do not aim to be slow, of course. But there is a central difference in approach, with large Western firms emphasizing scale and efficiency (a profit mindset) while Chinese marketers focus on speed and growth (a revenue mindset). Among the China-based teams of Western multinational firms I've met, this is a significant tension. Local managers are hampered by layers of global management that tend to slow down decision making, even as they interact with Chinese marketers accustomed to working quickly. "The speed at which they work is intimidating," Beaumont told me. "It's hard to comprehend how big of an impact it has."

How Western Companies Must Change

When put together, those four factors point to serious adjustments companies must make in how they plan and execute marketing—and in the competencies marketers need to succeed in China. They must:

Build closer and deeper relationships with the BATs. Marketers should stop relying on their ad agencies to develop relationships with conglomerates and dominant channel players and instead engage directly with the BATs, drawing on their data, knowledge, and expertise to devise better marketing programs.

This kind of relationship will be familiar to Western marketers: It is how they work with powerhouse retailers like Carrefour and Walmart. Historically, manufacturers would entrust retail relationships to their sales teams. However, as retail giants gained market power, companies began colocating their marketing staff with these important partners to gain access to data and customer insights and to create stronger partnerships. Marketers must now do the same with the BATs.

Consider how BMW and Tencent collaborated to codesign the launch of a new SUV model at the Beijing Motor Show. Mei Xiaoqun, marketing vice president at BMW in China, was directly involved with counterparts at Tencent. The objective was to create an auto show experience that would lead to immediate awareness and interest not just among people attending the show but for consumers across China. Through a cross-platform effort spanning Tencent's entertainment, sports, news, gaming, and finance divisions, the marketers created a live concert as the platform for a virtual car show and invited singers from different eras to participate. The live show, designed to enable a superior mobile experience,

featured "key opinion leaders" (KOLs)—individuals with tremendous social influence—who also had conducted virtual test-drives that were shared with millions of their fans. The program included real-time interaction in which young people voted for their favorite test-drive experience, sparking a sense of competition among fans. Some 10 million people viewed the concert, and more than 22,000 people went on virtual ride-alongs with KOLs that showcased the features of the vehicle. The speed at which the program was conceived and executed and its magnitude and impact would not have been possible without direct collaboration between BMW and Tencent's ecosystem of companies. A campaign like this exceeds anything marketers typically think of doing with American internet powerhouses such as Amazon, Facebook, and Google.

Steven Chang, then–corporate vice president at Tencent, told me that direct partnerships between the Chinese conglomerate and Western multinationals still have far to go. "We are just beginning to scratch the surface of what is possible," he said. "The ability to create connected, cross-channel programs is unparalleled, and it will take even greater collaboration to activate the potential."

Adopt a mobile-first mindset. Marketers should begin creating experiences that are centered on a mobile-first way of thinking. Consider an example cited by Aaron Shapiro, the founder and former CEO of Huge (sold to IPG), a global digital marketing firm that does extensive business in China. His firm worked with the Procter & Gamble skin care brand SK-II on programs in China using a virtual reality experience in which a smartphone is inserted in a VR headset—an approach that would be hard to replicate in an environment other than mobile. The brand cast the popular Taiwanese actor Wallace Huo in a video that explored the origin story of Pitera, a "miracle" ingredient that's the foundation of all SK-II's products. "Scenes of Wallace bookend a fully rendered 360-degree video that follows the journey from the insight in a sake brewery [when a scientist noticed that workers had unusually youthful-looking hands] to the hard-earned discovery of Pitera," Shapiro told me. Within a week, 20,000 custom VR headsets used to view the video sold out, and the content-focused promotion helped drive SK-II's biggest day of sales ever, on Singles Day in 2016.

Many Western marketers think of mobile as simply a smaller version of television. It's not. It's an entirely new medium that should become marketers' primary focus, not something they think about only after they're done planning next year's Super Bowl halftime ad. When it comes to advertising on mobile, U.S. companies lag behind. For instance, in each of the past three years, the best-in-show award at Smarties, a competition that judges mobile advertising, has gone to a non-U.S. company. "Marketers in the U.S. have a lot of historical and measurement support for channels other than mobile, and I think that has inhibited them from taking the time to figure out how to innovate in mobile," said Greg Stuart, global CEO of the Mobile Marketing Association. "Other countries seem to have been earlier to [understand] mobile's power and to capitalize more on it, given they have fewer options to get to consumers."

Go all-in on a social, viral approach. What would Western marketers do if they were told to drive immediate awareness without using traditional advertising—no radio, TV, digital, billboard, print, or other common channels? This is where many in China start. They believe that virality through socially engaging content is faster and cheaper and yields better results than advertising.

KOLs are seen as critical to this approach. "The intensity associated with using KOLs in China is unique relative to almost any other country," said Vishal Bali, managing director of Nielsen. "It isn't just a KOL sharing something on social media. They now do a lot of live-casting and streaming where fans can interact with them. In real time, you can watch sign-ups, engagement, and brand impact. KOLs are starting to cut across sports, dramas, gaming, live drama... everywhere." Indeed, China's "fan economy"—in which celebrities and other major social influencers are able to monetize their fame by driving purchases of items they endorse—is far better developed and a much more important marketing vehicle than Western Instagram culture, even for megastars like the Kardashians.

McDonald's has used the KOL approach in China to great effect. For example, when Zhou Zekai, a wildly popular professional video-game player, shared the fast-food chain's new Jumbo Cone ice cream offering on social media, more than 5.5 million cones

were sold in the first 10 days. Burberry created a campaign featuring blogger Tao Liang, a fashion guru better known by his alias, Mr. Bags, to launch its new line of DK88 leather bags to his more than 2.7 million Weibo and 600,000 WeChat followers. The collaboration meant that Tao could exclusively offer a certain color of the DK88 (bright toffee) to his "bagfans" through his own WeChat account. When the event went live, his entire limited edition sold out in eight minutes. In February 2017, in the same kind of program, Mr. Bags sold 80 pink Horizon bags for Givenchy, each costing 14,900 RMB ($2,164), in just 12 minutes.

Although Western marketers, especially B2B firms, are increasingly recognizing the importance of influencers, these programs are still afterthoughts, managed by junior marketers and given lower levels of investment, both intellectually and financially. But in a world where speed is critical to success, virality should be a central strategy. Western marketers must develop skill in this area, by increasing their investment and involving senior marketers.

Move from promotions to content-based engagement. In the West, when teams of marketers work with Walmart, Amazon, and other leading retailers, their aims are tactical. What price promotions can they create? Can they get better shelf space? How can they make their brands jump higher in search results? Such plans, based on a discounted price and developed months or even years in advance, train consumers to buy on sale. Engagement-first approaches—such as those behind the campaigns at BMW, P&G, McDonald's, and Burberry—encourage consumers to make purchases out of passion and joy, resulting in stronger brand-consumer relationships. This isn't "co-op advertising" or price-based promotion. It's content that consumers want to watch and share, driving engagement and influencing behavior. This is harder to do than creating a BOGO (buy one, get one) or a temporary price reduction, but it has the potential to yield more-permanent changes in behavior.

Shift from channel management to cross-platform integration. Marketers should think about creating a single brand experience that cuts across channels (in the West) or across platforms (in China). Consider a program led by Christine Xu, CMO for McDonald's China, and Helen Luan, general manager of Tencent's advertising account department, in which they collaborated to build a seamless, connected consumer experience. In 2017, Tencent purchased the rights to the Chinese novel *The King's Avatar* and created a popular game, a nine-book series, and an online animated series based on it. McDonald's and Tencent worked to integrate McDonald's into the animated series in a way that went beyond product placement, making the products part of the story itself. The program was rolled out across Tencent's gaming, digital book, social, banking, and animated series platforms. It was then expanded to an off-line experience through integrated product innovation, content, KOLs, and even a McDonald's store designed to mirror the one featured in the comic, which drove record-level traffic as fans traveled to the "holy site" to see the experience brought to life. The program's results were record-breaking, and the series has been watched by more than 17 million people.

Global firms that are used to operating in fragmented markets should be working with the Chinese conglomerates to co-create, test, develop, and learn. As more Chinese companies expand to the West or invest in Western firms, companies that do not operate in China will need to learn how their new competitors use cross-platform integration to gain advantage.

Question the value of planning versus speed. Marketers must recognize that *process* innovation, which drives speed, is as valuable as *product* innovation. Danielle Jin of Visa recalled how she approached her job when she worked as a marketer in the U.S. consumer packaged goods industry. "We would sit down with Walmart one to two years in advance and think about what seasonal promotion we would want to have," she said. "We would have a thought-out calendar that centered primarily on price promotions—a system and process created over decades that was based on a somewhat rigid planning process." By contrast, she explained, "a marketer with a Chinese mindset would talk about creating seamless content that cut across multiple platforms and was temporally relevant."

In China, marketing executives speak disparagingly about "strategy," but they aren't using that term the way Westerners do. They really mean the painstaking, bureaucratic, process-heavy planning that takes place in firms in which economies of scale, efficiency, and risk

Moving faster requires a greater tolerance of risk and an emphasis on agile systems, processes, and decision making.

management have become more important than speed. That way of thinking is in direct conflict with agility and risk taking. "Chinese companies have a growth mindset," explained Hai Ye, a partner at McKinsey & Company. "Many of them can tolerate relatively low profitability in order to scale up quickly. This difference—driving market share versus bottom-line profit—gives the Chinese companies an advantage because they are willing to make big investments and take short-term losses to achieve long-term dominance."

Consider the common multinational practice of standardizing products across markets. A company that manufactures and sells laundry detergent in Country A, Country B, and Country C, for example, may find it more cost-effective to create one formula for all three markets (even if it uses different brand names) rather than develop specific products for each country. While this drives efficiency, it doesn't take into account the potential (negative) impact on speed, growth, and market share. Consumers in each country have different tastes and values and, therefore, different standards of quality. When a manufacturer decides to create a single product for multiple markets, it typically designs to the highest standard. Even though the detergent company could quickly develop and launch a basic product that would sell well in Country A, which has lower requirements, it needs to wait until the product is refined for Country C, the most-demanding market, before it launches in all three. The efficiency gained by developing and producing one product for all markets comes at a cost: Rivals focused on only one market can innovate and introduce products much faster, potentially gaining market share. And the detergent manufacturer has to align only three countries; imagine the effect on speed when multinationals have to align dozens.

Moving faster requires a greater tolerance of risk and an emphasis on agile systems, processes, and decision making. It requires a mindset reminiscent of a start-up company's. To achieve this shift, companies should value process improvements that drive speed as much as they value scale and efficiency. Likewise, marketers should value process innovation as much as they value product innovation. And companies should find ways to quantify the cost of delays as accurately as the cost of inefficiency.

DURING THE 1990S, I worked in global strategy for the personal-cleansing category at Procter & Gamble. A sizable piece of the business came from the Chinese market, so I spent much of my time traveling there, focusing on how to grow the business. Based on that experience, when I moved into academics I felt I had a foundational understanding of how to market in China. Twenty years later, my research with C-suite marketers in China has convinced me that those marketing theories and practices, largely created in the West and taught in school today, are not enough to succeed in China's new landscape. China's market is fundamentally different, which has given rise to a different marketing mindset and drives a different set of competencies. Whether Western firm leaders embrace or ignore the emerging mindset may very well determine their success in China—and eventually, their ability to compete around the world.

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Below: The British Fashion Council (BFC) and Roblox introduced a category to The Fashion Awards 2021—the Fashion Award for Metaverse Design.

1. How Brands Are Experimenting with Web3

→ by ANA ANDJELIC

DEPENDING ON WHOM you ask, Web3, a new iteration of the internet based on blockchain technology, is a form of monetization, the future of organizing, or a get-rich-quick scheme. But amid this debate, many companies are already testing a range of ways to create value—from increasing brand awareness to experimenting with new models of product ownership—using Web3 tools. These initiatives mark both a technological advancement and a new approach to corporate strategy.

Early adopters of Web3 tools are using them to get a better understanding of consumer behavior so that they can more accurately—and competitively—chart customer journeys and participate in customer communities. These efforts help build companies' brands and power transparency around supply, production, and distribution, boosting corporate governance and sustainability credentials.

In this article, I examine how three different approaches to Web3—virtual products, hybrid products, and decentralized ownership—can deliver immediate business value. By experimenting with each, brands can take advantage of this new era of the internet to amplify and diversify their digital footprint.

Virtual Products

Many brands are creating their own Web3 products, often in partnership with established producers of and platforms for virtual assets. Think non-fungible tokens (NFTs), Roblox avatars, Fortnite skins, or property in Decentraland. Companies retain full control over the assets they create, including how they look and work in virtual environments and digital wallets. These experiments both attract the attention of younger audiences and yield useful insights on their behavior.

Kering, the luxury holding company, has a team dedicated to Web3, and its brands Gucci and Balenciaga have unveiled several metaverse initiatives. For example, the "Gucci Garden" experi-

COURTESY OF ROBLOX

Digital products can be used to quickly gauge the appeal of a product aesthetic or design, and companies can then turn the most popular virtual items into physical ones.

ence, a collaboration with Roblox, was a promotional virtual environment that people could explore with their avatars for two weeks in May 2021. As part of the event, a digital version of the real-world Gucci bag sold for 350,000 Robux (the cryptocurrency of Roblox), which is $4,115 in real-world money. Ralph Lauren partnered with Roblox in December 2021 to sell virtual winter sportswear that avatars can try on in stores in that virtual world. The company credited its strong earnings for the quarter in part to the campaign and associated investments.

One downside of selling digital products is their limited applicability outside their platforms of origin. Those virtual Ralph Lauren coats, for example, can be worn only in Roblox, not in Fortnite or other digital spaces. The virtual properties built in Decentraland, like fashion brand Philipp Plein's building complex, exist only within it. The lack of interoperability between Web3 platforms is an obstacle to greater customer adoption and to greater utility of brand-generated tokens and properties. Another challenge is monetization of Web3 assets. Artifacts like NFTs and game skins are still mostly regarded as marketing and PR experiments and sit outside a company's production, design, and merchandising functions.

Near term, the biggest potential of digital products is in customer intelligence. These assets, which are cheaper to produce than physical goods, can be used to quickly gauge the appeal of a product aesthetic or design, and companies can then turn the most popular virtual items into physical ones.

Hybrid Products

Another way companies are using Web3 is to enrich their real-world products with digital information. Here's how it works: First, information about a product is recorded on the blockchain in the form of a smart contract, or transaction protocols that automatically execute legally relevant events and actions according to set terms. Data recorded might include the product's origin, supply, production, and design, and once recorded on the blockchain, this information is immutable. The physical item thus becomes a collectible because of its uniqueness and authenticity. This allows brands to prevent counterfeiting and to benefit from secondary sales, which has traditionally been difficult to do.

For example, the National Basketball Association's Top Shot store sells video highlights of especially compelling shots—like a clutch three-pointer from Warriors star Stephen Curry or a legendary dunk from the Lakers' LeBron James—as collectible NFT "trading cards." Created by Dapper Labs, a blockchain company, in partnership with the NBA and its players union in 2020, these virtual trading cards include not only the highlight clip but also team-specific artwork, game and player stats, a description of the action, a unique serial number, and additional details.

Other examples show the varied ways firms are experimenting with hybrid products. The entertainment company Secret Level creates NFTs of classic TV and film scenes (in conjunction with the content's creators) that fans can buy, collect, and trade via blockchain. Clothing company Anybodies has a line of NFTs that owners can sell, share, or redeem for its limited-edition hoodies. Coach, the luxury fashion brand, launched an NFT collection for the 2021 holidays, giving buyers a special bag that wasn't available otherwise. Companies can even, as Adidas has done, record attendance at virtual or real-world events, like a fashion show or a collection launch, on the blockchain and reward the people who came with preferential access to new products and sales, exclusive invites to other events, and personal styling services.

The benefits that brands accrue from the hybrid approach are twofold: One is verifiable information on products' origins; the second is community-building. The downsides, however, include the energy and environmental costs of creating tokens and recording information on the blockchain. In the U.S., bitcoin mining—the process of creating new bitcoins by solving math problems that verify transactions in the currency—creates an estimated 40 billion pounds of carbon emissions, according to Business Insider.

In addition, to produce and manage these products, you need talent well versed in cryptocurrency and the blockchain; interdepartmental collaboration, with marketing, production, merchandising, and technology all coming together to develop successful hybrids; and state-of-the-art customer-relationship-

Distributed ownership has the potential to change the way customer communities are managed—and how product value is created and shared.

management programs so that actions can be recorded on the blockchain and rewarded.

Distributed Ownership

Distributed ownership is a new brand-governance paradigm. Instead of a company selling one item to one customer, this strategy is about multiple customers sharing ownership of something via the blockchain. While I'm not aware of any traditional brands using this strategy at present, digital-first companies are. As the technology evolves and experimentation continues, all marketers should understand how distributed ownership works, since it has the potential to change the way customer communities are managed—and how product value is created and shared.

For example, Otis is a distributed ownership platform where users buy, sell, and trade SEC-securitized shares of collectibles like artworks, comics, jewelry, or fashion clothing items, thus building portfolios of alternative assets. If a consumer wants to invest in the sneakers that Michael Jordan was wearing when his dunk shattered the backboard glass in a 1985 game, for example, they can purchase a small share of the shoes through Otis or a similar platform. The consumer can then earn a return if they sell their share or if the group of shareowners collectively decides to sell the sneakers.

There are a few scenarios for how this type of governance could play out for legacy brands. The first is a shared shopping cart. In this scenario, there are two item prices: one for individual buying and another for the shared shopping cart. When buyers select the latter, they join a group in which they can negotiate for lower prices and get discounts. A shared shopping cart is suitable for mass-market brands; it is already used by the Chinese marketplace Pinduoduo.

In the second scenario, midrange and premium brands can encourage group buying, which gives them real-time information about customer demand. This real-time information is based on individual purchase patterns and browsing histories, but also on the purchase patterns and browsing histories of everyone in the buying group. That information, in turn, allows brands to negotiate more-favorable rates with manufacturers. The results are better prices for consumers and less risk that companies will need to off-load excess inventory (and devalue their brand).

In the third scenario, for luxury brands, buyers gain shared ownership of a particularly valuable item, like a handbag or a piece of jewelry, that is either passed along through the group or treated like an investment to be later resold at a profit.

At scale, a distributed ownership platform might look like Friends with Benefits, a self-described "headless media community lifestyle brand" network, in which members have different levels of access and governing power depending on how many tokens they've earned or bought on the collectively owned platform. Perks of membership range from an FWB newsletter subscription to FWB Discord channel access to tickets to in-person events, all aimed at forging connections, creating project teams, or pursuing joint investments. FWB is fully user led and has become everything from a music discovery platform to a start-up incubator to a meeting place for crypto investors. Fee-paying members jointly agree on the purchases and investments the network makes, and all actions are recorded on the Ethereum blockchain.

Brands benefit from distributed ownership because it generates returns on production and property rights, while consumers get tangible rewards and partial ownership. With increased market activity, the value of the token or product increases and, in return, attracts more participants who generate even more activity. It's a virtuous cycle.

That said, when there is little or no demand, that positive feedback loop between product or token value and market activity doesn't exist. Another risk brands face in offering decentralized ownership is lack of control. Successful decentralized platforms are still, in most cases, more proposal than reality.

THE TECHNOLOGY BEHIND all these Web3 approaches remains nascent. But as brands better understand the opportunities and challenges and refine their approaches, their early experiments could turn into ongoing strategy.

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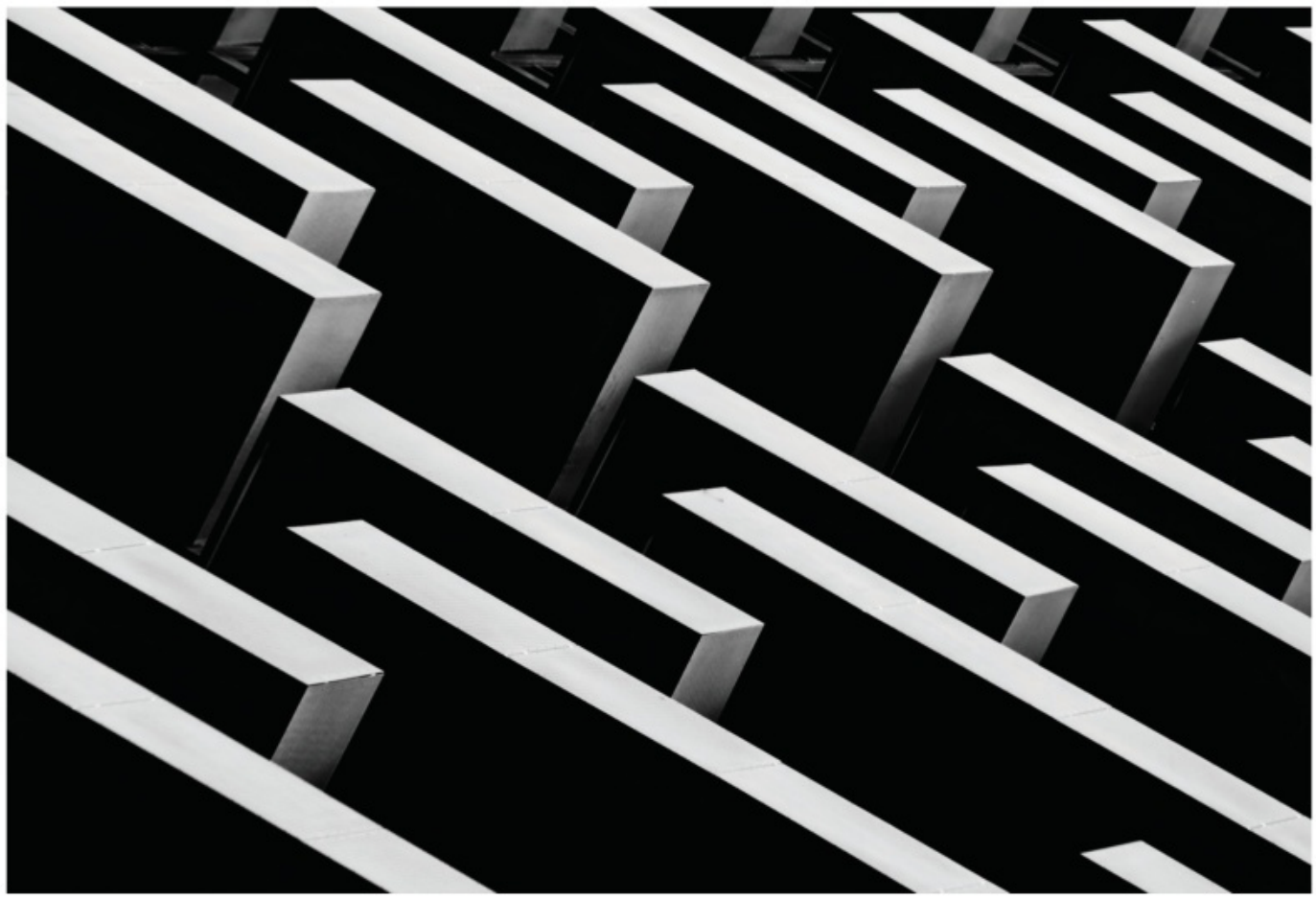

MARCIA STRAUB/GETTY IMAGES

2. What Blockchain Could Mean for Marketing

→ by ANINDYA GHOSE

COMPANIES ARE COLLECTING more data than ever before and making significant business decisions based on it. Of the "4 V's of Big Data" (volume, velocity, variety, and veracity), we have now seen ample evidence of the impact and importance of the first three. A higher *volume* of data has led to more efficient decision-making in programmatic marketing and banking. Leveraging high-*velocity* data—such as data from mobile devices—has unearthed knowledge that has helped firms better understand their customers. And the significant potential of high-*variety* data (data that is unstructured in the form of text, images, videos, and so on) to make better predictions has been documented in numerous academic studies. But what about issues related to the accuracy, reliability, and transparency of the data itself, which basically compose the fourth V, *veracity?* In the field of data-driven marketing, blockchain technology can address this limitation.

How Blockchain Works

In recent years, a major pain point for brands and advertisers has been the lack of transparency and accountability in being able to ascertain how their ad dollars have been spent. Digital advertising is complex—ensuring that the media that was purchased was actually delivered as it was intended is nontrivial today. Ad fraud is pervasive and costs marketers and publishers a significant amount of money. Forrester reports that as much as 56% of all display ad dollars was lost to fraudulent inventory in 2016. And the cost of ad fraud globally is expected to increase to $50 billion over the next decade. A recent study into the state of programmatic advertising revealed that 79% of advertisers surveyed are worried about transparency; more than a third consider the lack of visibility of third parties as one of their key concerns. It's why we are increasingly hearing that major brands like P&G have cut their ad budgets because their media agencies failed to give them the transparency they needed.

Blockchain can make data-driven marketing more transparent by validating and analyzing every

Blockchain's inherent ledger-based transparency can help companies build trust with consumers.

consumer's journey through verified ad delivery, confirming that a real person saw the ad as per the specifics of a media contract. Marketers will be able to control how their assets are delivered by monitoring exactly where their ads are being placed, alleviating ad fraud from automated bots by ensuring that real followers and consumers are engaging with their ads, and that proper ad engagement tracking will lead to more-precise digital attribution.

Another fundamental pain point in the mobile economy is experienced by consumers. Companies are overwhelming their customers with too many ads, emails, coupons, and messages. They send out a dozen different messages because they don't know much about consumer preferences, as astonishing as that might seem in today's data-intensive economy. The current practice is often akin to throwing a dozen darts in the air and hoping one will hit the bull's-eye. A survey of brand and agency marketers revealed that 94% of marketers don't have a single view about their consumers that could facilitate cross-platform continuity. Therefore, there's a disconnect between consumers and marketers with respect to what people want, and when, where, and how they want it.

For example, you book a hotel and days later a display ad for that same hotel follows you from one website to another. Blockchain technology can prevent the same display ad from being overserved, ensuring the optimal frequency of ad serving for each consumer. Studies have shown that when it comes to the impact of the frequency of ad exposure on consumers' propensity to buy, four to six ad exposures is optimal. However, delivering on this goal is nearly impossible due to issues of data quality (veracity). A smart contract on blockchain can fix this by providing a level of tracking and transparency that is currently not available to brands.

If consumers share more of their preference information, brands will know more about them, which in turn will increase the relevance of their messages and decrease the frequency of advertising. But some consumers are reluctant to share information with firms because they don't trust what firms might do with that data. Blockchain's inherent ledger-based transparency can help companies build trust with consumers. Consumers are willing to share their data with firms in return for better offers from the companies they regularly patronize. This implies that brands that have earned consumer trust and offer a relevant value exchange will be given greater access to personal information. Blockchain technology offers tremendous potential for mitigating such consumer concerns by giving consumers a transparent look at how marketers and advertisers have used their data. This will most likely give rise to markets for consumer data that will give users not only a transparent look at how their data *has been* used by advertisers but also more control over how their data *should be* used. Newer ad-tech vendors, such as telecom providers like Verizon and AT&T, may also have a credible chance to compete against the likes of Facebook and Amazon.

All this said, the ad-tech ecosystem is not yet ready to actually implement blockchain. The key roadblock that needs to be fixed is the speed of transactions. Because of its distributed nature, where transactions are verified by "miners" around the world, blockchain generally takes 10 to 30 seconds to validate transactions. This means that as of today, it cannot validate ad-tech transactions (which occur in milliseconds) fast enough. So ad-tech vendors will have to aggregate ad transactions into one block to create a single transaction, but of course that reduces transparency. In the short term, brands will most likely use blockchain as a postcampaign layer to validate and authenticate transactions, not in real time but after the fact. However, this is still a vast improvement over current practices.

Despite its speed limitations, blockchain will change the data-driven marketing business landscape.

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DANIEL GRIZELJ/GETTY IMAGES

3. As Customers Begin to Shop Through Voice Assistants, What Can Brands Do to Stand Out?

→ by DAVID R. MAYER and NICK HARRISON

THE INTERNET HAS overturned how people shop and reshaped the retail industry. Voice assistants are about to unleash another revolution. As people increasingly shop via the likes of Alexa and Siri, they will tend to demand generic products, starting with everyday items such as batteries and eventually including more-complex purchases such as electronics. Digital assistants will use algorithms to compare product specifications, make suggestions, and do comparisons so that customers can find "the longest-lasting battery pack" or "the cheapest bag of flour."

If digital assistants with trustworthy recommendations become a significant source of sales—and we think they will—they could chip away at all but the strongest product brands. Competition will become even more brutal as consumers switch between only one or two verbally suggested options offered by digital assistants—one being their own private label or another low-cost product. Companies that have negotiated with retailers for shelf space up to now will have to find ways to persuade the digital assistants to put their products at the top of verbal searches.

That won't be a problem for the strongest brands, especially those nearly synonymous with certain products—like Kleenex tissues and Q-tips cotton swabs in the United States, Thermos vacuum flasks in the United Kingdom, and Scotch adhesive tape in France. Since many people have strong emotional attachments to these products, a digital assistant will have to suggest them—or consumers will go elsewhere.

But most other manufacturers will find conversational commerce a challenge. Some mass-market brands are already losing shares as online shopping fragments the marketplace. A survey of 10,000 American consumers we recently conducted found that customers consider only one-third of brands "go-to." Customers are loyal to go-to brands because they perceive them to be functionally superior products they are emotionally connected to. Unfortunately, when asked to rate 169 brands on a scale of one to seven in terms of both attributes, respondents indicated they feel most brands stand out on only one or neither front.

So how can manufacturers compete for a voice assistant's attention? And what sorts of brands will survive in the new world of conversational commerce?

Make Product and Price Superiority Work

One approach is, of course, to sell at the lowest price. Without the expense of maintaining brand recognition, low-cost manufacturers can afford to give more margin to the companies behind digital assistants. However, without funds to promote its own brand, the manufacturer will effectively become a contractor, always at risk of being replaced.

Convenient, reliable, and effective products can still become the kind of star brand that people refuse to go without. So this will remain a powerful strategy, particularly for complex products requiring significant research and development, such as smart speakers that are simply better than

Manufacturers will have to convince the company behind the digital assistant that featuring their brand will continue to please its customers.

the alternatives or a newly patented skin cream that really leads to better results.

But this advantage will not last long in less-complex categories, where manufacturers catch up with equivalent products quickly. After that happens, consumers rush to a rival brand of bathroom bleach, canned peas, or phone charger—unless they feel some loyalty toward the brand they've been buying. So these manufacturers will have to use in-house data and primary research to convince the company behind the digital assistant that featuring their brand will continue to please its customers. Alternatively, they can pay to play and give the assistant a slotting fee, just as they pay for shelf space in supermarkets. But this will most likely be a fleeting short-term fix that puts off a long-term problem.

Go Niche

Another strategy is to develop brands that algorithms recognize as the first choice for niche audiences. These "tribal" brands can develop strong emotional connections with customers that go beyond product specifications: They relate to people's values and reflect their aspirations. The attraction may be the brand's style and image—think Harley-Davidson's motorbikes and coolness, Tom's shoes and ethics, or Method Products and consumers' desire for natural things. Mass-market brands can aim to meet specific niche needs while retaining a coherent brand expression across many tribes.

Tribal brands can help digital assistants identify their products' natural customers. Since they sell beyond digital assistants' footprints, manufacturers can show they are quite likely to have a high rate of conversion with voice shoppers by sharing customer data to demonstrate their products' connection to certain types of consumers. To do this, advances in social listening and machine learning will be especially useful now that communications about a brand are owned less and less by the brand and more and more by their audiences. Manufacturers will retain an edge if they can map out how millions of consumers' preferences are changing in real time by analyzing social media comments, audio, pictures, and video.

Manage Customers, Not Categories

Manufacturers will also need to convince digital assistants that their products will realize high returns when sold in combination with others. Companies have traditionally done this by suggesting to retailers ways to grow categories, such as detergent and skin care products. Now, online commerce is triggering a shift from category management to customer management. With the customer no longer physically confined to a supermarket aisle, algorithms can suggest products from an entirely different category—an insurance plan with an electric scooter, a recipe book with a new rice cooker, or baby toys and diapers with a car seat.

In the voice era, this practice will spread and become more sophisticated through an understanding of customer loyalties. For example, a customer who buys an environmentally friendly detergent may trade up to a bundle of ecoproducts including dishwasher tabs, soap, and shampoo. A customer who buys a new pair of sneakers may also buy running clothes and energy pouches.

The savviest manufacturers will develop portfolios of products for different affinities. Some consumers buy the detergent that cleans most effectively; others worry primarily about their children's sensitive skin; and another group is concerned about the environmental effects of the chemicals used. Tide, for example, makes Core Tide for the most effective wash, Free & Gentle for hypoallergenic users, Purclean based on plants, and the low-cost Simply. Such portfolios will be attractive to digital assistants as a way to cover customers with a single supplier relationship.

The Window for Action Is Closing

Large manufacturers with deeper proprietary insights into customers than those of digital assistants are now in a strong position. Online retailers have data only for shopping habits within the scope of the products they sell. Search engines know what consumers look for, but this can differ from what they end up buying. Moreover, most of this analysis is based on past actions, which have their limits for predicting future behavior. Manufacturers' innovation pipelines make it easier for them to envision future trends.

Some of the largest manufacturers are also investing in global data centers that build individual data profiles. These can help spot trends and predict future needs—"futurecasting"—while also facilitating real-time

customer management. For instance, one consumer packaged-goods firm can identify supply chain issues in real time through social listening, enabling it to resolve issues before they become a major problem for a retailer.

But companies that don't act now risk seeing profits migrate to the small number of winning brands that will remain. The skills required are scarce, and the capabilities are expensive to build.

Today, five-year-olds—who can't yet type—are some of the most eager users of voice technology. In a decade or so, we believe a significant share of commerce will be carried out by a generation used to shopping by voice. The adoption curve will be much steeper than that for online shopping, which has built up over the last 20 years. Manufacturers should review their portfolio of brands, focus on those that fit one of the three strategies above, and exit the rest.

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BERNHARD LANG/GETTY IMAGES

4. Four Questions Retailers Need to Ask About Augmented Reality

→ by DARRELL K. RIGBY, MIKEY VU, and ASIT GOEL

WHETHER THEY ARE shopping for eyeglasses or a sofa, consumers have no shortage of augmented reality (AR) apps to assist them these days. Following the viral success of Pokémon Go in 2016, hordes of retailers have embraced the technology.

Nintendo's cell phone–enabled treasure hunt was the first big showcase for AR's innovative blend of real-world and computer-generated images. Now the retail sector is using AR to sell items as diverse as furniture, cosmetics, home-improvement products, and fashion.

Executives like how AR could help make online shopping feel as good as—or better than—shopping in person. Sephora's app does this brilliantly, for instance, by allowing consumers to use their phone cameras to "try on" makeup virtually. Retail leaders also reckon AR will make their physical stores more engaging—and their salespeople more productive.

But AR's promise doesn't make it a great investment for every retailer. Executives must make painful trade-offs among myriad investment options, and they have reason to be suspicious of tempting gadgets. Bets on the likes of 3D TVs, scan-and-go checkouts, and facial-recognition software have tested their patience. Such innovations may not prove worthless, but they are certainly worth less than tech dreamers imagined.

The recent collapse and relaunch of Blippar, a prominent European AR start-up that created AR apps for consumer goods and retail customers such as Covent Garden, Net-a-Porter, and McDonald's, has added to worries that, for all its promise, AR might struggle to reach the mainstream. Forrester recently reported that new venture capital funding for AR in 2018 was $1.69 billion, less than half the $3.58 billion raised in 2017. "We believe such a

Even if the math turns out to be wrong, it's worth laying out how a technology such as AR should improve profits.

dramatic pullback is in direct response to expensive and underwhelming results from early adopters of XR," Forrester said, advising companies considering AR to "proceed with an abundance of caution."

So, how should retailers determine the appropriate role for AR in their businesses? By answering four questions that could apply to almost any technology decision.

1. Will our customers value this (more than a price cut)? Customers have a hard time telling us what they will want. We haven't met any customers who were asking for Pokémon Go. Conventional wisdom says that clothing shoppers want fashion advice, top-notch service, and experiential ambience, yet we watch Amazon and discounters such as T.J.Maxx gain market share with lower prices (and a "root through the piles" treasure hunt at the latter's stores).

Whether retailers make or buy them, AR apps cost real money—anywhere from $300,000 to $30 million for development costs alone. Are customers willing to pay for that, or would they rather have lower prices? The answer depends on whether your targets are aggressive adopters of technology, the app enhances your brand, and the purchase and usage of your product is sufficiently complex to justify the use of AR.

Furniture apps such as IKEA Place use AR to ease a notorious source of pain for shoppers—namely, the difficulty of predicting what a couch, bed, or table will look like when brought home. Will it fit into the available space? Will it go with the existing furniture, carpets, and walls? That's a perfect problem for AR to solve. Consumers really suffer when they buy the wrong furniture online: They might lose eight weeks waiting for delivery only to then be forced into the nightmare that engulfs those trying to return these bulky items. The value to the consumer is high relative to the cost of the innovation.

2. Does the technology have value to a wide range of customers? When you're thinking about AR's value to customers, don't stop with consumers. AR can also be useful in education and training simulations, helping field representatives perform maintenance and repairs, and testing complex store designs and tricky user experiences.

Often these uses are more profitable than consumer apps and are the right places to begin building AR capabilities. For instance, stock pickers at a Dutch e-commerce warehouse operator worked 15% faster when they were equipped with Google Glass; orders were pushed directly to the AR-enabled spectacles, accelerating a process that had relied on the retrieval of physical printouts. Start with the most profitable applications and move on to the tougher ones.

3. Can the math work? Even if the math turns out to be wrong, it's worth laying out how a technology such as AR should improve profits. Is it supposed to increase sales (the number of customers who visit each year, the frequency of shopping visits per year, the percentage of shopping visits that create purchases, the number of categories shopped, the number of items purchased per category, the average unit revenue per item)? Is it supposed to lower costs (labor, materials, distribution, marketing)? Is it supposed to reduce inventory levels or capital expenses?

Limit the intangible benefits. Don't just "imagine the PR power"; quantify the improvement in marketing expenses. With these kinds of estimates in hand, it is far easier to test initial assumptions, compare actual results with early estimates, improve investment proposals over time, and identify better ways of solving customer problems.

And don't forget to look for creative sources of funding. Technology vendors often are willing to subsidize AR projects for learning and publicity purposes. Merchandise vendors may be open to paying to have their products featured in the apps.

4. Where does this belong on our technology backlog? Let's face it: The technology systems of most retailers are dreadful. As a result, they become the choking points for almost every important innovation that retailers need to succeed. Yet the number of projects heaped onto this creaking infrastructure is growing fast. This is why the biggest issue is how you should prioritize and sequence AR on your technology to-do list.

Given constraints on budgets and the hiring of tech experts, the results are often disastrous when retail executives add projects to this to-do list. Delays ripple across the existing back-

log. Meanwhile, customer needs evolve, and nimbler competitors charge ahead, making many of these stalled projects obsolete.

Retail executives can't see technology projects piling up the way they can see inventory stacked in warehouses or back rooms. But technology projects are every bit as expensive and perishable as physical inventories. Retailers need to stop starting innovation projects and start finishing them.

Agile methods often sequence technology projects according to their cost of delay. In other words, what would it cost to delay this project by one month? These costs can be a matter of life and death for core technology projects in retail such as e-commerce websites and apps, the integration of online and offline shopping, advanced analytics, and call center improvements.

And the costs of delaying an AR project? Let's just say that we haven't seen any retailers die because their AR project was delayed by a year. Nor have we seen languishing retailers leap to leadership on the basis of their AR apps.

As a tool, AR will most likely get more powerful. It helps that billions of people will always have an AR-enabled gadget in their pocket or handbag. But the appropriate role for it will vary significantly by retail sector and by the health of a retailer's core technologies. So, while AR should be on many retailers' test-and-learn lists, it should not delay the advancement and completion of more-important tech projects that will determine whether these companies follow the path of Amazon or that of Toys "R" Us.

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GERT HENNING/EYEEM/GETTY IMAGES

5. In Mobile Advertising, Timing Is Everything

→ by SUNIL GUPTA

THE HISTORY OF advertising shows that for any new medium, the industry tends to use the same approach that worked in the old medium. The first TV ad, produced by Bulova, showed the image of the watch product with a voiceover—essentially the same as a radio ad. The first online ads mimicked the format of familiar print ads. Google's view of mobile ads reflects its search DNA, even though more than 85% of the time people spend on mobile is on apps, not browsers. And now companies are pouring billions of dollars into irrelevant and annoying banner ads on mobile phones that are essentially miniature replicas of the desktop version.

Understanding the psychology of consumers at different moments is more effective than just knowing their demographics or interests.

Perhaps it is time to rethink mobile advertising and its purpose.

There is a maniacal focus among advertisers to know their customers—their demographics, interests, hobbies, friends on Facebook, and so on. The implicit assumption is that ads can be more relevant and targeted as we learn more about our customers. But each customer is multifaceted. You are not only an executive but also a golfer, a foodie, a parent, a tourist, and so on. And your mindset is quite different depending on the context and moment.

If you book an Uber ride on a Friday evening, ads for restaurants and movies may be relevant at that moment. If you are stuck at an airport because of a delayed flight, you may be more inclined to sign up for Netflix. Driving on a highway at noontime is perhaps the best time for your Google Maps on your car dashboard to show nearby food places.

Understanding the psychology of consumers at different moments is more effective than just knowing their demographics or interests. Timing is everything in advertising, and mobile can wait for just the right moment to reach consumers.

Here are examples of brands that have successfully used a moments-based approach to mobile advertising:

The Weather Company

When David Kenny became the CEO of The Weather Company in 2012, he realized that the TV-centric model of the company was in trouble, as consumers were increasingly checking weather on their mobile devices but spending only a few seconds doing it, which did not give enough time to monetize this audience by showing ads. Recognizing that people check the weather to plan their day, Kenny decided to link weather data with product sales. His team persuaded retailers to share sales data on every product sold, in every store location, over the last five years. Then The Weather Company correlated it with local weather conditions and forecasts at that time of the year. This created a powerful predictive algorithm of how weather drove consumers' behavior and purchase decisions. Pantene tested this platform by running location-specific ads on The Weather Channel's mobile app and offered free "haircasts" to tell consumers how frizzy or flat they could expect their hair to look during the next three days. Sales of Pantene jumped 28%.

Red Roof Inn

Red Roof Inn realized that flight cancellations in the U.S. left 90,000 passengers stranded every day. Imagine the emotions of a typical passenger at that moment—it perhaps starts with frustration and anger at the airlines and then turns toward the need to find a place to stay overnight. Recognizing this, the marketing team of Red Roof Inn developed a way to track flight delays in real time that triggered targeted ads for Red Roof Inn near airports. Ads that said, "Stranded at the airport? Come stay with us!" captured the consumers at the right moment, which resulted in a 60% increase in bookings compared with other campaigns.

InMobi

A few years ago Naveen Tewari, CEO of InMobi, a large independent mobile advertising network that Google tried to buy, received an email from his daughter that said, "Is there a way to turn off these irritating ads on my phone? I don't know if anyone ever clicks on them. I wonder who spends time putting these ugly ads on my phone?" This sentiment resonated with Tewari, and in July 2015 his company launched a new service called Miip, a digital curator that helps consumers discover brands at the right moment. InMobi hoped that Miip would become the trusted adviser for consumers on their mobile devices. Initial tests, which touched more than 5 million impressions a day, revealed that user engagement with Miip was more than 25%, far above the typical mobile ads.

The glory of mobile phones is that they are the consumer's constant companion—from the time the alarm goes off (usually on the phone) to the moment they get into bed (usually after a final email check). Understanding the emotions, moods, and psychology of consumers at different moments in time is the next frontier of mobile advertising.

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HBR STAFF/DNY59/NORMFORM/GETTY IMAGES

6. Why Marketers Are Returning to Traditional Advertising

→ by CHRISTINE MOORMAN, MEGAN RYAN, and NADER TAVASSOLI

DIGITAL MARKETING technologies and their ecosystems have dominated growth in marketing budgets for over a decade. As consumers have shifted their attention from stationary media to perpetual media on the go, traditional advertising has lost some of its appeal. In turn, marketers pivoted investments from television, radio, newspaper, events, and outdoor advertising to digital channels, from TikTok to TechTarget.

For the last decade, marketers have consistently predicted that their traditional advertising spending would decline. According to data from the 28th edition of The CMO Survey, on average, marketers reported an annual *decrease* in traditional advertising spending of -1.4% between February 2012 and 2022, compared with an annual *increase* of 7.8% for overall marketing budgets during this same period.

However, recent evidence suggests that a shift is underway. In contrast to the historical trend, in August 2021 and February 2022, marketers predicted that traditional advertising spending would increase by 1.4% and 2.9%, respectively.

Consumer-facing companies are leading the shift, with B2C service companies predicting the largest increase in traditional advertising spending (+10.2%), followed by B2C product companies (+4.9%). Further, and somewhat ironically, companies that earn 100% of their sales through the internet are leading this inflection—predicting an 11.7% increase in traditional advertising spending over the next 12 months.

So, why is traditional advertising on the rise, and will the trend continue? We see seven drivers behind the shift.

1. Breaking through the digital clutter. As consumers are spending most of their waking hours online, they are becoming increasingly numb to conventional digital advertising and engagement. They report frustration and negative brand association with digital advertising clutter that prevents them from reading an article, watching a video, or browsing a website. For example, a HubSpot survey found that 57% of participants disliked ads that played before a video and 43% didn't even watch them. As a result, marketers are looking for a way to cut through the noise.

Traditional ads, on the other hand, are experiencing increased engagement. MarketingSherpa reports that more than half of consumers often or always watch traditional television advertisements and read print advertisements that they receive in the mail from companies they are satisfied with. Indeed, research by Ebiquity suggests that traditional media channels—led by TV, radio, and print—outperform digital channels in terms of reach, attention, and engagement relative to costs. This performance differential is amplified as costs of online advertising have increased, especially when accounting for impression, click, and conversion fraud—whereas the costs of traditional media have fallen. It simply makes good economic sense to rebalance spending away from digital clutter.

2. Capitalizing on consumers' trust in traditional advertising. The same MarketingSherpa survey found that the top five most trusted advertising formats are all traditional, with customers trusting most print advertising (82%), television advertising (80%), direct mail advertising (76%), and radio advertising (71%) to make purchasing decisions. Similarly, it found that British and American consumers trust traditional advertising such as television, radio, and print more than social media advertising. As a result, marketers can use traditional advertising to build brand credibility and trust with jaded buyers.

3. Preparing for the decline of third-party cookies. For years, marketers have relied on third-party cookies to track website visitors, using detailed data on their search preferences to improve the user experience and to target consumers with personalized ad experiences. However, with Google phasing out the third-party cookie on Chrome browsers by late 2023 and Apple implementing changes to its iOS14 operating system, the death of third-party cookies is imminent. The CMO Survey found that 19.8% of companies invested more in traditional advertising (outside of online approaches) as a result.

Because of this inevitable change to the advertising landscape, marketers will be forced to rely on segmentation methods that hew closer to traditional advertising models. Without advanced data-driven targeting, marketers will need to refocus on extending their reach.

4. Tapping the growing medium of podcasting. Podcasts are a form of digital media. However, unlike banner, display, and other social advertisements that often appear within consumers' everyday browsing, podcasts use an on-demand approach that is more similar to traditional radio. And this is one reason advertising succeeds. According to AdsWizz, "Podcasts saw a 51% increase in available inventory, a 53% increase in new podcasts, and an 81% increase in podcast ad impressions."

In addition to reaching over 100 million monthly listeners, podcast ads are effective because listeners trust their podcast hosts and are genuinely influenced by their endorsements. In fact, Edison Research's Super Listeners 2020 study found that 45% of podcast listeners believe the hosts of their favorite podcasts actually use the brands mentioned on their shows. According to the same study, almost half of podcast listeners pay more attention to podcast advertisements than those of any other format. Given the match of target market to podcast content, podcasting has proven to be an effective way to get a company's brand in front of a well-suited and attentive audience.

5. Exploiting the digital lift of traditional media. Digital technology can leverage traditional tools in powerful and surprising ways. For example, who would have thought that direct mail would be resurrected? That's exactly what happens when mailers are paired with a QR code that consumers can scan to learn more. Furthermore, as Madison Taylor Marketing shares, unique URLs and QR codes allow marketers to gather extremely granular data, permitting them to develop robust marketing analytics regarding ROI and attribution, and eroding the advantage of digital channels.

6. Fine-tuning brand and market fit. Marketing is an art and a science of contingencies and context. This means that sometimes traditional advertising is a perfect fit for some brands, markets, and messages. For example, broadcast TV continues to offer an ideal platform for emotional storytelling ads, such as the clever "Welcome Back" Guinness ad that marked the reopening of pubs and restaurants following the Covid-19 lockdown. New addressable TV solutions, such as by Finecast, now enable advertisers to precision-target viewer

The advantages of digital media can be a double-edged sword, and marketers are becoming more cautious about blindly embracing it.

segments across on-demand and livestreamed TV, thereby eroding the targeting advantage of online channels.

7. Revisiting digital effectiveness. The CMO Survey showed that 54.8% of marketers track digital marketing performance in real time, with an additional 35.2% doing so quarterly or weekly. At the same time, marketers are also becoming skeptical of the hyped returns of digital media, because the platforms control both the advertising inventory and its effectiveness measurement. This has raised credibility concerns related to ad fraud and the worry that digital advertising may be far less effective than reported.

The digital promise of hyper-targeting and personalization is also under scrutiny. For example, recent academic research by Jing Li and colleagues published in the *Journal of Marketing* shows that retargeting can actually backfire if done too early. And research in computer science has shown that personalization can lead to consumer reactance, especially when consumers are unfamiliar with the brand. In short, marketers are learning that the advantages of digital media can be a double-edged sword and are becoming more cautious about blindly embracing it.

Pundits have long predicted the demise of traditional advertising. However, it is alive and well and headed for growth for the first time in a decade. When used together, traditional and digital marketing can reach more audiences, build and keep trust, and motivate buying from consumers who otherwise might tune out marketing messages.

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Branding in the Age of Social Media

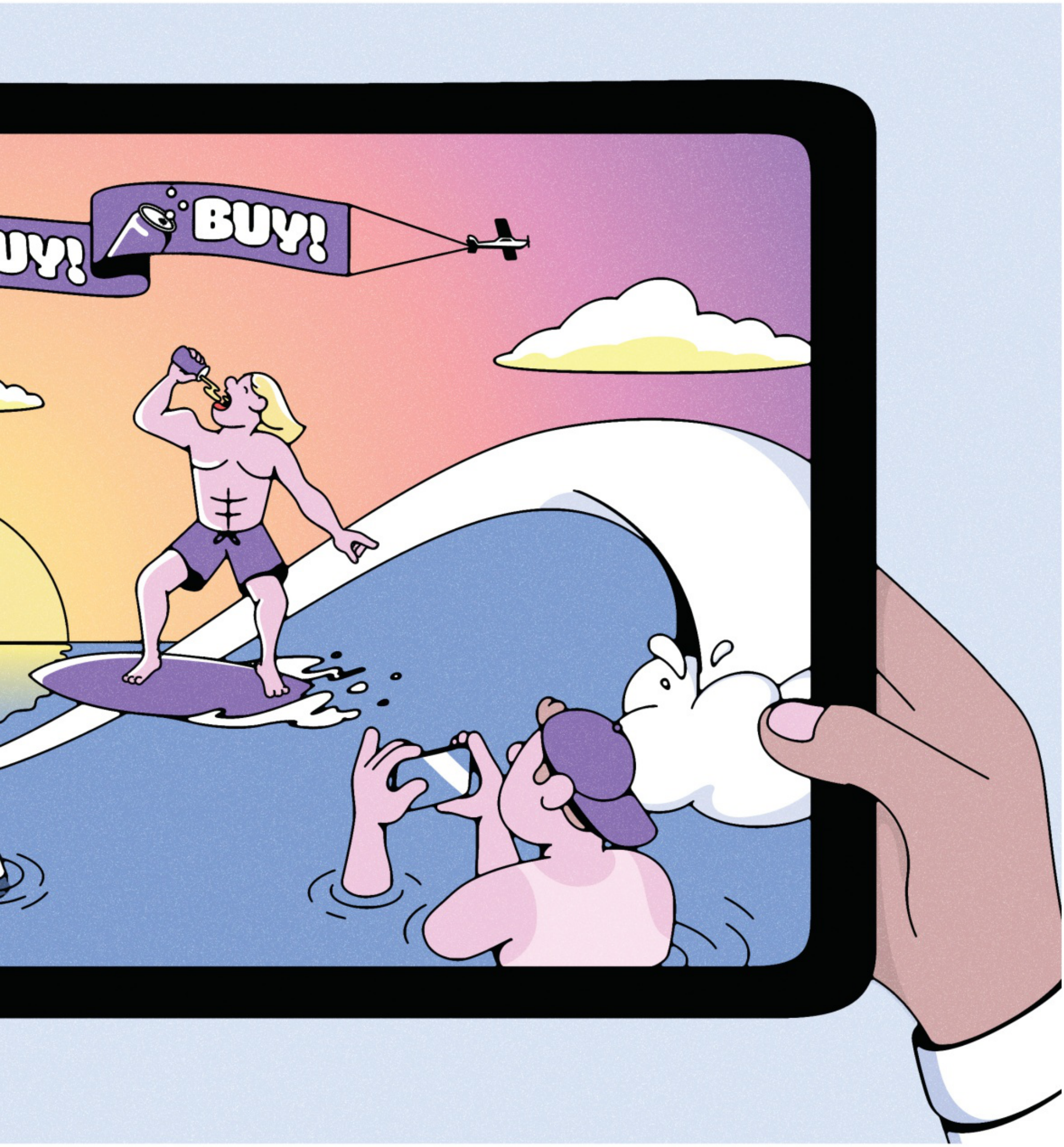
→ by DOUGLAS HOLT

IN THE ERA OF Facebook and YouTube, brand building has become a vexing challenge. This is not how things were supposed to turn out. A decade ago most companies were heralding the arrival of a new golden age of branding. They hired creative agencies and armies of technologists to insert brands throughout the digital universe. *Viral, buzz, memes, stickiness,* and *form factor* became the lingua franca of branding. But despite all the hoopla, such efforts have had very little payoff.

As a central feature of their digital strategy, companies made huge bets on what is often called *branded content*. The thinking went like this: Social media would allow your company to leapfrog traditional media and forge relationships directly with customers. If you told them great stories and connected with them in real time, your brand would become a hub for a community of consumers. Businesses have invested billions pursuing this vision. Yet few brands have generated meaningful consumer interest online. In fact, social media seems to have made brands *less* significant. What has gone wrong?

To solve this puzzle, we need to remember that brands succeed when they break through in culture. And branding

Illustration by **JIMMY SIMPSON**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is a set of techniques designed to generate cultural relevance. Digital technologies have not only created potent new social networks but also dramatically altered how culture works. Digital crowds now serve as very effective and prolific innovators of culture—a phenomenon I call *crowdculture*. Crowdculture changes the rules of branding—which techniques work and which do not. If we understand crowdculture, then, we can figure out why branded-content strategies have fallen flat—and what alternative branding methods are empowered by social media.

Why Branded Content and Sponsorships Used to Work

While promoters insist that branded content is a hot new thing, it's actually a relic of the mass media age that has been repackaged as a digital concept. In the early days of that era, companies borrowed approaches from popular entertainment to make their brands famous, using short-form storytelling, cinematic tricks, songs, and empathetic characters to win over audiences. Classic ads like Alka-Seltzer's "I Can't Believe I Ate the Whole Thing," Frito-Lay's "Frito Bandito," and Farrah Fawcett "creaming" Joe Namath with Noxema all snuck into popular culture by amusing audiences.

This early form of branded content worked well because the entertainment media were oligopolies, so cultural competition was limited. In the United States, three networks produced television programming for 30 weeks or so every year and then went into reruns. Films were distributed only through local movie theaters; similarly, magazine competition was restricted to what fit on the shelves at drugstores. Consumer marketing companies could buy their way to fame by paying to place their brands in this tightly controlled cultural arena.

Brands also infiltrated culture by sponsoring TV shows and events, attaching themselves to successful content. Since fans had limited access to their favorite entertainers, brands could act as intermediaries. For decades, we were accustomed to fast food chains' sponsoring new blockbuster films, luxury autos' bringing us golf and tennis competitions, and youth brands' underwriting bands and festivals.

The rise of new technologies that allowed audiences to opt out of ads—from cable networks to DVRs and then the internet—made it much harder for brands to buy fame. Now they had to compete directly with real entertainment. So companies upped the ante. BMW pioneered the practice of creating short films for the internet. Soon corporations were hiring top film directors (Michael Bay, Spike Jonze, Michel Gondry, Wes Anderson, David Lynch) and pushing for ever-more-spectacular special effects and production values.

These early (pre-social-media) digital efforts led companies to believe that if they delivered Hollywood-level creative at internet speed, they could gather huge engaged audiences around their brands. Thus was born the great push toward branded content. But its champions weren't counting on new competition. And this time it came not from big media companies but from the crowd.

The Rise of Crowdculture

Historically, cultural innovation flowed from the margins of society—from fringe groups, social movements, and artistic circles that challenged mainstream norms and conventions. Companies and the mass media acted as intermediaries, diffusing these new ideas into the mass market. But social media has changed everything.

Social media binds together communities that once were geographically isolated, greatly increasing the pace and intensity of collaboration. Now that these once-remote communities are densely networked, their cultural influence has become direct and substantial. These new crowdcultures come in two flavors: subcultures, which incubate new ideologies and practices, and art worlds, which break new ground in entertainment

Amplified subcultures. Today you'll find a flourishing crowdculture around almost any topic: espresso, the demise of the American Dream, Victorian novels, arts-and-crafts furniture, libertarianism, new urbanism, 3-D printing, anime, bird-watching, homeschooling, barbecue. Back in the day, these subculturalists had to gather physically and had very limited ways to communicate collectively: magazines and, later, primitive Usenet groups and meet-ups.

Social media has expanded and democratized these subcultures. With a few clicks, you can jump into the center of any subculture, and participants' intensive interactions move seamlessly among the web, physical spaces, and traditional media. Together members are pushing forward new ideas,

Once audiences could opt out of ads, it became much harder for brands to buy fame.

products, practices, and aesthetics—bypassing mass-culture gatekeepers. With the rise of crowdculture, cultural innovators and their early adopter markets have become one and the same.

Turbocharged art worlds. Producing innovative popular entertainment requires a distinctive mode of organization—what sociologists call an art world. In art worlds, artists (musicians, filmmakers, writers, designers, cartoonists, and so on) gather in inspired collaborative competition: They work together, learn from one another, play off ideas, and push one another. The collective efforts of participants in these "scenes" often generate major creative breakthroughs. Before the rise of social media, the mass-culture industries (film, television, print media, fashion) thrived by pilfering and repurposing their innovations.

Crowdculture has turbocharged art worlds, vastly increasing the number of participants and the speed and quality of their interactions. No longer do you need to be part of a local scene; no longer do you need to work for a year to get funding and distribution for your short film. Now millions of nimble cultural entrepreneurs come together online to hone their craft, exchange ideas, fine-tune their content, and compete to produce hits. The net effect is a new mode of rapid cultural prototyping, in which you can get instant data on the market's reception of ideas, have them critiqued, and then rework them so that the most resonant content quickly surfaces. In the process, new talent emerges and new genres form. Squeezing into every nook and cranny of pop culture, the new content is highly attuned to audiences and produced on the cheap. These art-world crowdcultures are the main reason why branded content has failed.

Beyond Branded Content

While companies have put their faith in branded content for the past decade, brute empirical evidence is now forcing them to reconsider. In YouTube or Instagram rankings of channels by number of subscribers, corporate brands barely appear. Only three have cracked the YouTube Top 500. Instead you'll find entertainers you've never heard of, appearing as if from nowhere.

YouTube's greatest success by far is PewDiePie, a Swede who posts barely edited films with snarky voice-over commentary on the video games he plays. By January 2016 he had racked up nearly 11 billion views, and his YouTube channel had more than 41 million subscribers.

How did this happen? The story begins with the youth subcultures that formed around video games. When they landed on social media, they became a force. The once-oddball video-gaming-as-entertainment subculture of South Korea went global, producing a massive spectator sport, now known as E-Sports, with a fan base approaching 100 million people. (Amazon recently bought the E-Sports network Twitch for $970 million.)

In E-Sports, broadcasters provide play-by-play narration of video games. PewDiePie and his comrades riffed on this commentary, turning it into a potty-mouthed new form of sophomoric comedy. Other gamers who film themselves, such as VanossGaming (YouTube rank #19, 15.6 million subscribers), elrubiusOMG (#20, 15.6 million), CaptainSparklez (#60, 9 million), and Ali-A (#94, 7.4 million), are also influential members of this tribe. The crowdculture was initially organized by specialized media platforms that disseminated this content and by

Idea in Brief

CONTEXT
Companies have sunk billions of dollars into producing content on social media, hoping to build audiences around their brands. But consumers haven't shown up.

WHAT WENT WRONG
Social media has transformed how culture works. Digital crowds have become powerful cultural innovators—a new phenomenon called *crowdculture.* They're now so effective at producing creative entertainment that it's impossible for companies to compete.

THE WAY FORWARD
While crowdculture has deflated conventional branding models, it actually makes an alternative model—*cultural branding*—even more powerful. In this approach, brands collaborate with crowdcultures and champion their ideologies in the marketplace.

How One Brand Uses Celebrities to Break Through

Under Armour's recent campaign "I Will What I Want" shows how to combine celebrity sponsorships and cultural branding to create content with impact.

Under Armour originally became an iconic brand by swiping Nike's cultural strategy—then doing it one better.

Nike's approach, launched in the 1970s and perfected in the 1990s, was to tell stories of athletes who overcame societal barriers through sheer willpower. But a decade ago Nike abandoned its competitive-underdog ideology to go all in on branded content, using famous athletes to make entertaining sports films. Under Armour stepped into the void, producing arresting new ads, such as "Protect This House," that championed the same ideology and took off on social media.

Under Armour also followed Nike in dramatizing how über-competitiveness, traditionally associated with masculinity, applied equally to women, broadcasting spots that showcased female athletes. The latest effort, "I Will What I Want," pushed gender boundaries even further, challenging conventions in arenas where traditional ideals of femininity still reign.

Ballet star Misty Copeland—who grew up in poverty with a single parent—is an athletic, muscular dancer in a profession that celebrates waifish, reed-thin women. Under Armour made a video about how she rose above adversity (the voice-over is from a rejection letter saying that her body was completely wrong for ballet), showing her dancing in a formfitting sports bra and pants that reveal her curvier physique.

A Gisele Bündchen film followed the same convention-breaking formula but mashed up incongruous crowdcultures to provoke a social media response. The former Victoria's Secret star is usually portrayed within the glamorous world of runways and celebrity hobnobbing. Under Armour broke the frame by placing her in what was essentially an old Nike ad: a backstage video of Gisele in an intense kickboxing workout. The company announced the partnership ahead of filming. It immediately stirred up the crowdculture: Sports fans were cynical, Gisele fans were curious, fashionistas were puzzled, and feminists simply loved it. Under Armour's agency scraped all this commentary from the web and projected quotes from the digital discussion on the walls behind her. The resulting video shows Gisele sweating and kicking the bag, ignoring the litany of digs surrounding her: "Is posing now a sport?" "She's not even pretty." "What's her sport, smiling?" "Stick to modeling, sweetie."

Under Armour succeeded because it innovated with ideology—using female celebrities to provocatively push against gender norms. The company aimed its communiqués directly at the crowdcultures that held those norms, which set off a firestorm of debate.

Videos of Bündchen and Copeland challenged assumptions about women.

On social media, what works for Shakira backfires for Crest and Clorox.

insider fans who gathered around and critiqued it, hyping some efforts and dissing others. PewDiePie became the star of this digital art world—just as Jean-Michel Basquiat and Patti Smith had done in urban art worlds back in the analog days. The main difference is that the power of crowdculture propelled him to global fame and influence in record time.

Gaming comedy is just one of hundreds of new genres that crowdculture has created. Those genres fill every imaginable entertainment gap in popular culture, from girls' fashion advice to gross-out indulgent foods to fanboy sports criticism. Brands can't compete, despite their investments. Compare PewDiePie, who cranks out inexpensive videos in his house, to McDonald's, one of the world's biggest spenders on social media. The McDonald's channel (#9,414) has 204,000 YouTube subscribers. PewDiePie is 200 times as popular, for a minuscule fraction of the cost.

Or consider Red Bull, the most lauded branded-content success story. It has become a new-media hub producing extreme- and alternative-sports content. While Red Bull spends much of its $2 billion annual marketing budget on branded content, its YouTube channel (rank #184, 4.9 million subscribers) is lapped by dozens of crowdculture start-ups with production budgets under $100,000. Indeed, Dude Perfect (#81, 8 million subscribers), the brainchild of five college jocks from Texas who make videos of trick shots and goofy improvised athletic feats, does far better.

Coca-Cola offers another cautionary tale. In 2011 the company announced a new marketing strategy—called Liquid & Linked—with great fanfare. Going all in, it shifted its emphasis from "creative excellence" (the old mass-media approach) to "content excellence" (branded content in social media). Coke's Jonathan Mildenhall claimed that Coke would continually produce "the world's most compelling content," which would capture "a disproportionate share of popular culture," doubling sales by 2020.

The following year, Coca-Cola launched its first big bet, transforming the static corporate website into a digital magazine, *Coca-Cola Journey*. It runs stories on virtually every pop culture topic—from sports and food to sustainability and travel. It's the epitome of a branded-content strategy.

Journey has now been live for over three years, and it barely registers views. It hasn't cracked the top 10,000 sites in the United States or the top 20,000 worldwide. Likewise, the company's YouTube channel (ranked #2,749) has only 676,000 subscribers.

It turns out that consumers have little interest in the content that brands churn out. Very few people want it in their feed. Most view it as clutter—as brand spam. When Facebook realized this, it began charging companies to get "sponsored" content into the feeds of people who were supposed to be their fans.

The problem companies face is structural, not creative. Big companies organize their marketing efforts as the antithesis of art worlds, in what I have termed *brand bureaucracies*. They excel at coordinating and executing complex marketing programs across multiple markets around the world. But this organizational model leads to mediocrity when it comes to cultural innovation.

Brand Sponsors Are Disintermediated

Entertainment "properties"—performers, athletes, sports teams, films, television programs, and video games—are also hugely popular on social media. Across all the big platforms you'll find the usual A-list of celebrities dominating. On YouTube musicians Rihanna, One Direction, Katy Perry, Eminem, Justin Bieber, and Taylor Swift have built massive audiences. On Twitter you'll find a similar cast of singers, along with media stars like Ellen DeGeneres, Jimmy Fallon, Oprah, Bill Gates, and the pope. Fans gather around the tweets of sports stars Cristiano Ronaldo, LeBron James, Neymar, and Kaká, and teams such as FC Barcelona and Real Madrid (which are far more popular than the two dominant sports brands, Nike and Adidas). On Instagram you'll find more of the same.

These celebrities are all garnering the superengaged community that pundits have long promised social media would deliver. But it's not available to companies and their branded goods and services. In retrospect, that shouldn't be surprising: Interacting with a favored entertainer is different from interacting with a brand of rental car or orange juice. What works for Shakira backfires for Crest and Clorox. The idea that consumers could possibly want to talk about Corona or Coors in the same way that they debate the talents of Ronaldo and Messi is silly.

Social media allows fans to create rich communities around entertainers, who interact directly with them in a barrage of tweets, pins, and posts. Sports teams now hire social media

ambassadors to reach out to fans in real time during games, and once the game is over, the players send along insider photos and hold locker-room chats. Beyond the major platforms, new media sites like Vevo, SoundCloud, and Apple Music are spurring even more direct digital connections.

Of course, entertainers are still more than happy to take sponsors' money, but the cultural value that's supposed to rub off on the brand is fading.

Cultural Branding

While the rise of crowdculture diminishes the impact of branded content and sponsorships, it has greased the wheels for an alternative approach that I call *cultural branding*. (See the sidebar "How Cultural Branding Builds Icons.") The dramatic breakthrough of the fast-casual Mexican food chain Chipotle from 2011 to 2013 (before recent outbreaks of foodborne illness) demonstrates the power of this approach.

Chipotle took advantage of an enormous cultural opportunity created when the once-marginal movements that had challenged America's dominant industrial food culture became a force to be reckoned with on social media. The chain jumped into the fray as a champion of this crowdculture's ideology. By applying cultural branding, Chipotle became one of America's most compelling and talked-about brands (though recent food-safety difficulties have dented its image). Specifically, Chipotle succeeded by following these five principles:

1. Map the cultural orthodoxy. In cultural branding, the brand promotes an innovative ideology that breaks with category conventions. To do that, it first needs to identify which conventions to leapfrog—what I call the *cultural orthodoxy*. America's industrial food ideology was invented in the early 20th century by food-marketing companies. Americans had come to believe that, through dazzling scientific discoveries (margarine, instant coffee, Tang) and standardized production processes, big companies, overseen by the Food and Drug Administration, would ensure bountiful, healthful, and tasty food. Those assumptions have undergirded the fast food category since McDonald's took off in the 1960s.

2. Locate the cultural opportunity. As time passes, disruptions in society cause an orthodoxy to lose traction. Consumers begin searching for alternatives, which opens up an opportunity for innovative brands to push forward a new ideology in their categories.

For industrial food, the tipping point came in 2001, when Eric Schlosser's book *Fast Food Nation* powerfully challenged it. This was followed in 2004 by Morgan Spurlock's film *Super Size Me* and in 2006 by Michael Pollan's influential book *The Omnivore's Dilemma*. These critiques dramatically affected the upper middle class, quickly spreading concerns about industrial food and providing huge momentum to Whole Foods Market, Trader Joe's, and a host of other upmarket food purveyors. The same transformation is unfolding in other countries dominated by industrial food ideology. For instance, in the United Kingdom the celebrity chefs Jamie Oliver and Hugh Fearnley-Whittingstall have played a similar role.

Before social media, the influence of these works would have remained locked within this small fraction of society. Instead, crowdcultures grabbed the critiques and blew them up, pushing industrial food anxiety into the mainstream. News about every major problem linked to industrial food production—processed foods loaded with sugar, carcinogenic preservatives, rBGH in milk, bisphenol A leaching from plastics, GMOs, and so on—began to circulate at internet speed. Videos of the meatlike substance "pink slime" went viral. Parents worried endlessly about what they were feeding their kids. Crowdculture converted an elite concern into a national social trauma that galvanized a broad public challenge.

3. Target the crowdculture. Challengers to the industrial food ideology had lurked at the margins for more than 40 years but had been easily pushed aside as crazy Luddites. Small subcultures had evolved around organic farming and pastured livestock, eking out a living at the fringes of the market in community-supported agriculture and farmers' markets. But as social media took off, an influential and diverse cluster of overlapping subcultures pushed hard for food innovations. They included advocates of evolutionary nutrition and paleo diets, sustainable ranchers, a new generation of environmental activists, urban gardeners, and farm-to-table restaurants. In short order, a massive cultural movement had organized around the revival of preindustrial foods. Chipotle succeeded because it jumped into this crowdculture and took on its cause.

How Cultural Branding Builds Icons

Iconic brands are cultural innovators: They leapfrog the conventions of their categories to champion new ideologies that are meaningful to customers.

As a result, they enjoy intense customer loyalty and superior sales and profits, and garner loads of free media coverage. In business, few achievements are more prized than creating an iconic brand. Yet the two dominant branding models are not designed to do the job.

The first model, *mindshare branding,* is one that companies have long relied on. It treats a brand as a set of psychological associations (benefits, emotions, personality). The second model, *purpose branding,* has become popular in the past decade. In it, a brand espouses values or ideals its customers share. Over the past 15 years I've developed an alternative approach—*cultural branding*—to turn what was once serendipity into a rigorous discipline. Let me illustrate how it works, using the transformation of Jack Daniel's from a near-bankrupt regional distiller to the maker of the leading premium American whiskey.

Whiskies compete to be perceived as upscale and masculine. In the 1950s the major brands sought to align themselves with the male ideal of the day: the sophisticated modern corporate executive. Jack Daniel's, a small whiskey targeted to upper-middle-class men, was being trounced by the national competitors. How could it break through?

Mindshare-branding experts would advise the company to convey, very consistently, the key brand associations: masculine, sophisticated, smooth-tasting, classic. But that was precisely what Jack Daniel's was doing—its ads mimicked the national brands', showing alpha executives drinking smooth whiskey. And they didn't work. Purpose-branding experts would encourage the firm to champion its core values. With that approach, the focus wouldn't be much different: Those values had to do with producing classic charcoal-filtered whiskey for a sophisticated drinker.

Instead, the firm (tacitly) pursued a cultural-branding approach. Because masculine ideals are shaped by society, they change over time. The Cold War had dramatically affected Americans' perceptions of masculinity. In the face of a nuclear threat, the corporate executive seemed too sedentary. Instead, the public was drawn to what had only recently been viewed as an anachronism: the gunslinging rugged individualist of the Old West, who, in the American mythos, had helped forge the country's success. The enormous popularity of Western films was one indication of this shift. This massive cultural opportunity, which Marlboro and Levi's leveraged as well, is obvious when analyzed through a cultural-branding framework—but invisible without one.

The Jack Daniel's distillery was in a rural region of Tennessee that the postwar mass media portrayed as an impoverished land of hillbillies. Yet in the American imagination, the area was also one of the last authentic pockets of the frontier, where Davy Crockett and Daniel Boone had gotten their start. So when American men yearned to revive the ideology of the frontier, the whiskey offered great potential as a symbol. This theme was first hit upon by men's magazines (*Fortune, True*), which published stories romanticizing the distillery as a place run by frontiersmen, little changed since the 19th century. The company's print-ad campaign simply emulated those stories, adding some folksy copy.

Jack Daniel's quickly became the aspirational whiskey among urban upper-middle-class men; the branding converted its once-stigmatized location into a place where men were really men. Conventional models would never build a strategy centered on such a downscale version of masculinity. But in cultural branding, inverting marginal ideologies is one of the tricks of the trade.

4. Diffuse the new ideology. Chipotle promoted preindustrial food ideology with two films. In 2011 the company launched *Back to the Start,* an animated film with simple wooden figures. In it, an old-fashioned farm is transformed into a parody of a hyper-rationalized industrial farm: The pigs are stuffed together inside a concrete barn, then enter an assembly line where they are injected with chemicals that fatten them into blimps, and then are pressed into cubes and deposited in a fleet of semis. The farmer is haunted by this transformation and decides to convert his farm back to its original pastoral version.

The second film, *The Scarecrow,* parodied an industrial food company that branded its products using natural farm imagery. The company is actually a factory in which animals are injected with drugs and treated inhumanely. It cranks out premade meals stamped "100% beef-ish" that kids, oblivious to the real process, eagerly gobble up. A scarecrow who works at the factory is depressed by what he witnesses until he gets an idea. He picks a bunch of produce from his garden, takes it to the city, and opens up a little taqueria—a facsimile of a Chipotle.

The films were launched with tiny media buys and then seeded out on social media platforms. Both were extremely influential, were watched by tens of millions, generated huge media hits, and helped drive impressive sales and profit gains. Each won the Grand Prix at the Cannes advertising festival.

Chipotle's films are wrongly understood simply as great examples of branded content. They worked because they went beyond mere entertainment. The films were artful, but so are many thousands of films that don't cut through. Their stories weren't particularly original; they had been repeated over and over with creative vigor for the previous decade or so. But they exploded on social media because they

By targeting novel ideologies from crowdcultures, brands can find a way to stand out.

were myths that passionately captured the ideology of the burgeoning preindustrial food crowdculture. Chipotle painted an inspired vision of America returning to bucolic agricultural and food production traditions and reversing many problems in the dominant food system.

The bête noire of the preindustrial food movement is fast food, so the idea that a major fast food company would promote that story was particularly potent with the crowd. Chipotle was taking on pink slime! Moreover, boutique locavore food was expensive, but at Chipotle people could now assuage their worries with a $7 burrito. Because they tapped into anxieties percolating in the crowdculture, Chipotle's films never had to compete as great entertainment.

5. Innovate continually, using cultural flashpoints. A brand can sustain its cultural relevance by playing off particularly intriguing or contentious issues that dominate the media discourse related to an ideology. That's what Ben & Jerry's did so well in championing its sustainable business philosophy. The company used new-product introductions to playfully spar with the Reagan administration on timely issues such as nuclear weapons, the destruction of the rain forests, and the war on drugs.

To thrive, Chipotle must continue to lead on flashpoint issues with products and communiqués. The company has been less successful in this respect: It followed up with a Hulu series that had little social media impact because it simply mimicked the prior films rather than staking out new flashpoints. Then Chipotle moved on to a new issue, championing food without GMOs. Aside from the fact that this claim challenged its credibility (after all, Chipotle still sold meat fed by GMO grain and soft drinks made with GMO sweeteners), GMO was a relatively weak flashpoint, a contentious issue only among the most activist consumers and already touted by many hundreds of products. These efforts failed to rally the crowdculture. A number of other flashpoints, such as sugary drinks and industrial vegetable oils, generate far more controversy and have yet to be tackled by a major food business.

Of course, leading with ideology in the mass market can be a double-edged sword. The brand has to walk the walk or it will be called out. Chipotle is a large and growing business with many industrial-scale processes, not a small farm-to-table taqueria. Delivering perishable fresh food, which the company is committed to as a preindustrial food champion, is a huge operational challenge. Chipotle's reputation has taken a painful hit with highly publicized outbreaks of E. coli and norovirus contamination. Chipotle won't win back consumer trust through ads or public relations efforts. Rather, the company has to convince the crowdculture that it's doubling down on its commitment to get preindustrial food right, and then the crowd will advocate for its brand once again.

Competing for Crowdcultures

To brand effectively with social media, companies should target crowdcultures. Today, in pursuit of relevance, most brands chase after trends. But this is a commodity approach to branding: Hundreds of companies are doing exactly the same thing with the same generic list of trends. It's no wonder consumers don't pay attention. By targeting novel ideologies flowing out of crowdcultures, brands can assert a point of view that stands out in the overstuffed media environment.

Take the personal care category. Three brands—Dove, Axe, and Old Spice—have generated tremendous consumer interest and identification in a historically low-involvement category, one you would never expect to get attention on social media. They succeeded by championing distinctive gender ideologies around which crowdcultures had formed.

Axe mines the lad crowd. In the 1990s feminist critiques of patriarchal culture were promulgated by academics in American universities. These attacks whipped up a conservative backlash mocking "politically correct" gender politics. It held that men were under siege and needed to rekindle their traditional masculinity. In the UK and then the United States, this rebellion gave rise to a tongue-in-cheek form of sexism called "lad culture." New magazines like *Maxim, FHM,* and *Loaded* harked back to the *Playboy* era, featuring lewd stories with soft-porn photos. This ideology struck a chord with many young men. By the early 2000s lad culture was migrating onto the web as a vital crowdculture.

Axe (sold as Lynx in the UK and Ireland) had been marketed in Europe and Latin America since the 1980s but had become a dated, also-ran brand.

That is, until the company jumped onto the lad bandwagon with "The Axe Effect," a campaign that pushed to bombastic extremes politically incorrect sexual fantasies. It spread like wildfire on the internet and instantly established Axe as the over-the-top cheerleader for the lad crowd.

Dove leads the body-positive crowd. Axe's aggressive stand set up a perfect opportunity for another brand to champion the feminist side of this "gender war." Dove was a mundane, old-fashioned brand in a category in which marketing usually rode the coattails of the beauty trends set by fashion houses and media. By the 2000s the ideal of the woman's body had been pushed to ridiculous extremes. Feminist critiques of the use of starved size 0 models began to circulate in traditional and social media. Instead of presenting an aspiration, beauty marketing had become inaccessible and alienating to many women.

Dove's "Campaign for Real Beauty" tapped into this emerging crowdculture by celebrating real women's physiques in all their normal diversity—old, young, curvy, skinny, short, tall, wrinkled, smooth. Women all over the world pitched in to produce, circulate, and cheer for images of bodies that didn't conform to the beauty myth. Throughout the past decade, Dove has continued to target cultural flashpoints—such as the use of heavily Photoshopped images in fashion magazines—to keep the brand at the center of this gender discourse.

Old Spice taps the hipster crowd. The ideological battle between the laddish view and body-positive feminism left untouched one other cultural opportunity in the personal care market. In the 2000s, a new "hipster" ideology arose in urban subcultures to define sophistication among young cosmopolitan adults. They embraced the historical bohemian ideal with gusto but also with self-referential irony. Ironic white-trash wardrobes (foam trucker hats, ugly Salvation Army sweaters) and facial hair (waxed handlebar mustaches, bushy beards) became pervasive. Brooklyn was chock-full of lumberjacks. Amplified by crowdculture, this sensibility rapidly spread across the country.

Old Spice branding piggybacked on hipster sophistication with a parody of Axe and masculine clichés. The campaign featured a chiseled, bare-chested former football player, Isaiah Mustafa, as a huckster for Old Spice—"the man your man could smell like." The films hit the hipster bull's-eye, serving up an extremely "hot" guy whose shtick is to make fun of the conventions of male attractiveness. You too can be hot if you offer your woman amazing adventures, diamonds and gold, and studly body poses, all with aggressive spraying of Old Spice.

These three brands broke through in social media because they used cultural branding—a strategy that works differently from the conventional branded-content model. Each engaged a cultural discourse about gender and sexuality in wide circulation in social media—a crowdculture—which espoused a distinctive ideology. Each acted as a proselytizer, promoting this ideology to a mass audience. Such opportunities come into view only if we use the prism of cultural branding—doing research to identify ideologies that are relevant to the category and gaining traction in crowdcultures. Companies that rely on traditional segmentation models and trend reports will always have trouble identifying those opportunities.

A DECADE IN, companies are still struggling to come up with a branding model that works in the chaotic world of social media. The big platforms—the Facebooks and YouTubes and Instagrams—seem to call the shots, while the vast majority of brands are cultural mutes, despite investing billions. Companies need to shift their focus away from the platforms themselves and toward the real locus of digital power—crowdcultures. They are creating more opportunities than ever for brands. Old Spice succeeded not with a Facebook strategy but with a strategy that leveraged the ironic hipster aesthetic. Chipotle succeeded not with a YouTube strategy but with products and communications that spoke to the preindustrial food movement. Companies can once again win the battle for cultural relevance with cultural branding, which will allow them to tap into the power of the crowd.

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Douglas Holt *former professor at Harvard Business School and the University of Oxford, is the author of* Cultural Innovation *(forthcoming, Oxford University Press, 2023), which expands on his HBR 2020 article "Cultural Innovation." Holt's initial work on cultural strategy appears in* How Brands Become Icons: The Principles of Cultural Branding *(Harvard Business School Press, 2004).*

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Designing Better Online Review Systems

How to create ratings that buyers and sellers can trust

by GEOFF DONAKER, HYUNJIN KIM, and MICHAEL LUCA

ONLINE REVIEWS ARE transforming the way consumers choose products and services: We turn to TripAdvisor to plan a vacation, Zocdoc to find a doctor, and Yelp to find new restaurants. Review systems play a central role in online marketplaces such as Amazon and Airbnb as well. More broadly, a growing number of organizations—ranging from Stanford Health Care to nine of the 10 biggest U.S. retailers—now maintain review ecosystems to help customers learn about their offerings.

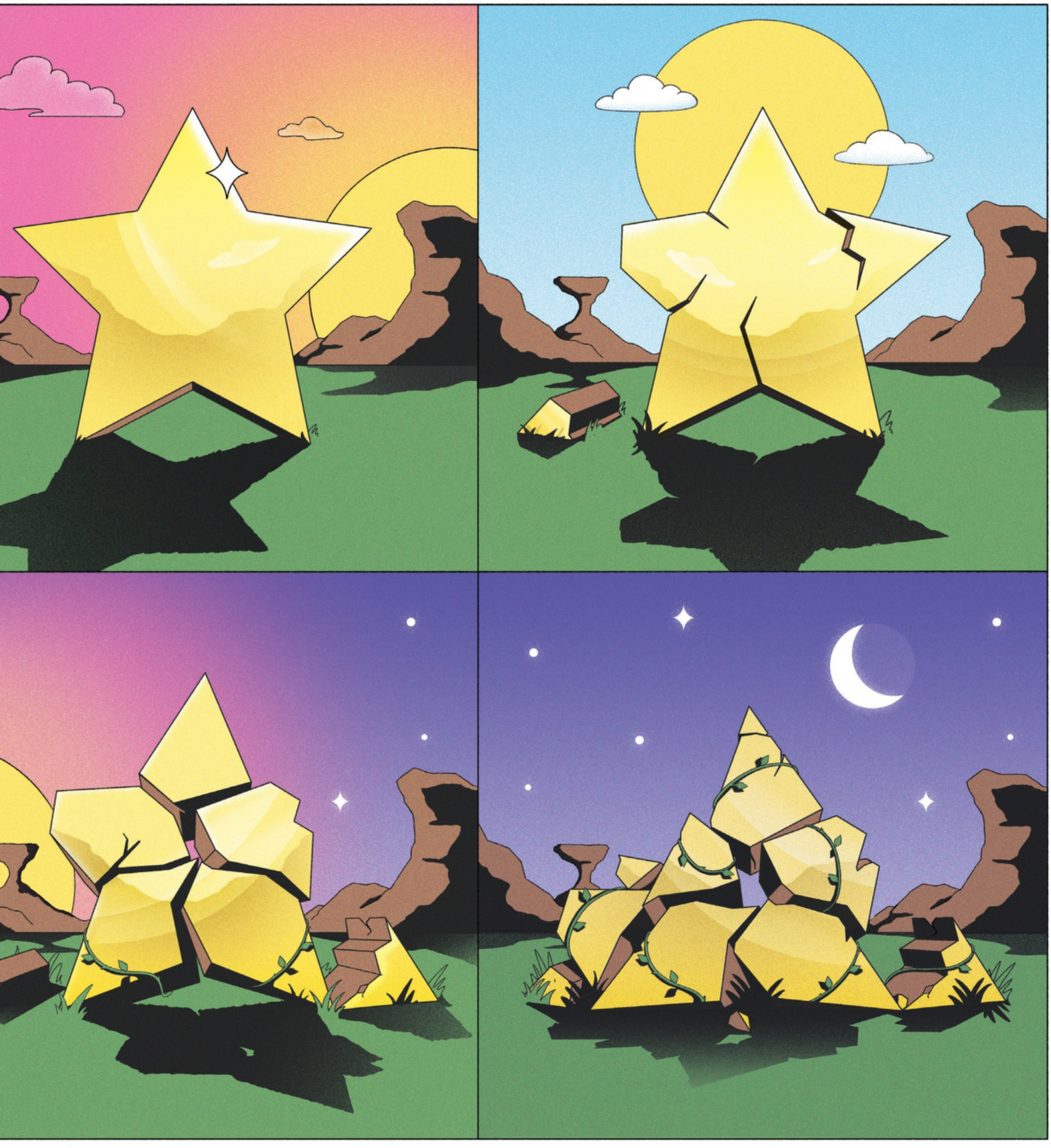
Managed well, a review system creates value for buyers and sellers alike. Trustworthy systems can give consumers the confidence they need to buy a relatively unknown product, whether a new book or dinner at a local restaurant. For example, research by one of us (Mike) found that higher Yelp ratings lead to higher sales. This effect is greater for independent businesses, whose reputations are less well established. Reviews also create a feedback loop that provides suppliers with valuable information: For example, ratings allow Uber to remove poorly performing drivers from its service, and they can give producers of consumer goods guidance for improving their offerings.

But for every thriving review system, many others are barren, attracting neither reviewers nor other users. And some amass many reviews but fail to build consumers' trust in their informativeness. If reviews on a platform are all positive, for example, people may assume that the items being rated are all of high quality—or they may conclude that the system can't help them differentiate the good from the bad. Reviews can be misleading if they provide an incomplete snapshot of experiences. Fraudulent or self-serving reviews can hamper platforms' efforts to build trust. Research by Mike and Georgios Zervas has found that businesses are especially likely to engage in review fraud when their reputation is struggling or competition is particularly intense.

Behind many review-system failures lies a common assumption: that building these systems represents a technological challenge rather than a managerial one. Business leaders often invest heavily in the technology behind a system but fail to actively manage the content, leading to common problems. The implications of poor design choices can be severe: It's hard to imagine that travelers would trust Airbnb without a way for hosts to establish a reputation (which leans heavily on reviews), or that shoppers could navigate Amazon as seamlessly without reviews. As academics, Hyunjin and Mike have researched the design choices that lead some online platforms to succeed while others fail and have worked with Yelp and other companies to help them on this front (Hyunjin is also an economics research intern at Yelp). And as the COO of Yelp for more than a decade, Geoff helped its review ecosystem become one of the world's dominant sources of information about local services.

In recent years a growing body of research has explored the design choices that can lead to more-robust review and reputation systems. Drawing on our research, teaching, and work with companies, this article explores frameworks for managing a review ecosystem—shedding light on the issues that can arise and the

Illustration by JIMMY SIMPSON



incentives and design choices that can help to avoid common pitfalls. We'll look at each of these issues in more detail and describe how to address them.

Not Enough Reviews

When Yelp began, it was by definition a new platform—a ghost town, with few reviewers or readers. Many review systems experience a shortage of reviews, especially when they're starting out. While most people read reviews to inform a purchase, only a small fraction write reviews on any platform they use. This situation is exacerbated by the fact that review platforms have strong network effects: It is particularly difficult to attract review writers in a world with few readers, and difficult to attract readers in a world with few reviews.

We suggest three approaches that can help generate an adequate number of reviews: *seeding the system, offering incentives,* and *pooling related products* to display their reviews together. The right mix of approaches depends on factors such as where the system is on its growth trajectory, how many individual products will be included, and what the goals are for the system itself.

Seeding reviews. Early-stage platforms can consider hiring reviewers or drawing in reviews from other platforms (through a partnership and with proper attribution). To create enough value for users in a new city to start visiting Yelp and contributing their own reviews, the company recruited paid teams of part-time "scouts" who would add personal photos and reviews for a few months until the platform caught on. For other businesses, partnering with platforms that specialize in reviews can also be valuable—both for those that want to create their own review ecosystem and for those that want to show reviews but don't intend to create their own platform. Companies such as Amazon and Microsoft pull in reviews from Yelp and other platforms to populate their sites.

For platforms looking to grow their own review ecosystem, seeding reviews can be particularly useful in the early stages because it doesn't require an established brand to incentivize activity. However, a large number of products or services can make it costly, and the reviews that you get may differ from organically generated content, so some platforms—depending on their goals—may benefit from swiftly moving beyond seeding.

Offering incentives. Motivating your platform's users to contribute reviews and ratings can be a scalable option and can also create a sense of community. The incentive you use might be financial: In 2014 Airbnb offered a $25 coupon in exchange for reviews and saw a 6.4% increase in review rates. However, nonfinancial incentives—such as in-kind gifts or status symbols—may also motivate reviewers, especially if your brand is well established. In Google's Local Guides program, users earn points any time they contribute something to the platform—writing a review, adding a photo, correcting content, or answering a question. They can convert those points into rewards ranging from early access to new Google products to a free 1TB upgrade of Google Drive storage. Yelp's "elite squad" of prolific, high-quality reviewers receive a special designation on the platform along with invitations to private parties and events, among other perks.

Financial incentives can become a challenge if you have a large product array. But a bigger concern may be that if they aren't designed well, both financial and nonfinancial incentives can backfire by inducing users to populate the system with fast but sloppy reviews that don't help other customers.

Pooling products. By reconsidering the unit of review, you can make a single comment apply to multiple products. On Yelp, for example, hairstylists who share salon space are reviewed together under a single salon listing. This aggregation greatly increases the number of reviews Yelp can amass for a given business, because a review of any single stylist appears on the business's page. Furthermore, since many salons experience regular churn among their stylists, the salon's reputation is at least as important to the potential customer as that of the stylist. Similarly, review platforms may be able to generate more-useful reviews by asking users to review *sellers* (as on eBay) rather than separating out every product sold.

Deciding from the outset whether and how to pool products in a review system can be helpful, because it establishes what the platform is all about. (Is this a place to learn about stylists or about salons?) Pooling becomes particularly attractive as your product space broadens, because you have more items to pool in useful ways.

A risk to this approach, however, is that pooling products to achieve more reviews may fail to give your customers the information they need about any particular offering. Consider, for

example, whether the experience of visiting each stylist in the salon is quite different and whether a review of one stylist would be relevant to potential customers of another.

Amazon's pooling of reviews in its bookstore takes into account the format of the book a reader wants to buy. Reviews of the text editions of the same title (hardback, paperback, and Kindle) appear together, but the audiobook is reviewed separately, under the Audible brand. For customers who want to learn about the content of the books, pooling reviews for all audio and physical books would be beneficial. But because audio production quality and information about the narrator are significant factors for audiobook buyers, there may be a benefit to keeping those reviews separate.

All these strategies can help overcome a review shortage, allowing content development to become more self-sustaining as more readers benefit from and engage with the platform. However, platforms have to consider not only the volume of reviews but also their informativeness—which can be affected by selection bias and gaming of the system.

Selection Bias

Have you ever written an online review? If so, what made you decide to comment on that particular occasion? Research has shown that users' decisions to leave a review often depend on the quality of their experience. On some sites, customers may be likelier to leave reviews if their experience was good; on others, only if it was very good or very bad. In either case the resulting ratings can suffer from selection bias: They might not accurately represent the full range of customers' experiences of the product. If only satisfied people leave reviews, for example, ratings will be artificially inflated. Selection bias can become even more pronounced when businesses nudge only happy customers to leave a review.

EBay encountered the challenge of selection bias in 2011, when it noticed that its sellers' scores were suspiciously high: Most sellers on the site had over 99% positive ratings. The company worked with the economists Chris Nosko and Steven Tadelis and found that users were much likelier to leave a review after a good experience: Of some 44 million transactions that had been completed on the site, only 0.39% had negative reviews or ratings, but more than twice as many (1%) had an actual "dispute ticket," and more than seven times as many (3%) had prompted buyers to exchange messages with sellers that implied a bad experience. Whether or not buyers decided to review a seller was in fact a better predictor of future complaints—and thus a better proxy for quality—than that seller's rating.

EBay hypothesized that it could improve buyers' experiences and thus sales by correcting for raters' selection bias and more clearly differentiating higher-quality sellers. It reformulated seller scores as the percentage of all of a seller's *transactions* that generated positive ratings (instead of the percentage of positive ratings). This new measure yielded a median of 67% with substantial spread in the distribution of scores—and potential customers who were exposed to the new scores were more likely than a control group to return and make another purchase on the site.

By plotting the scores on your platform in a similar way, you can investigate whether your ratings are skewed, how severe the problem may be, and whether additional data might help you fix it. Any review system can be crafted to mitigate the bias it is most likely to face. The entire review process—from the initial ask to the messages users get as they type their reviews—provides opportunities to nudge users to behave in less-biased ways. Experimenting with

Idea in Brief

THE PROMISE
Review systems such as driver ratings for Uber and Lyft, product reviews on Amazon, and hotel recommendations on TripAdvisor increasingly inform consumers' decisions. Good systems give buyers the confidence they need to make a purchase and yield higher sales (and more returning customers) for sellers.

THE PROBLEM
Many systems don't live up to their promise—they have too few reviews or the reviews are misleading or unhelpful. Behind many review-system failures lies a common assumption: that building these systems represents a technological challenge rather than a managerial one.

THE SOLUTION
Those building and maintaining these systems must make design decisions that lead to better experiences for both consumers and reviewers.

design choices can help show how to reduce the bias in reviewers' self-selection as well as any tendency users have to rate in a particular way.

Require reviews. A more heavy-handed approach requires users to review a purchase before making another one. But tread carefully: This may drive some customers off the platform and can lead to a flood of noninformative ratings that customers use as a default—creating noise and a different kind of error in your reviews. For this reason, platforms often look for other ways to minimize selection bias.

Allow private comments. The economists John Horton and Joseph Golden found that on the freelancer review site Upwork, employers were reluctant to leave public reviews after a negative experience with a freelancer but were open to leaving feedback that only Upwork could see. (Employers who reported bad experiences privately still gave the highest possible public feedback nearly 20% of the time.) This provided Upwork with important information—about when users were or weren't willing to leave a review, and about problematic freelancers—that it could use either to change the algorithm that suggested freelancer matches or to provide aggregate feedback about freelancers. Aggregate feedback shifted hiring decisions, indicating that it was relevant additional information.

Design prompts carefully. More generally, the reviews people leave depend on how and when they are asked to leave them. Platforms can minimize bias in reviews by thoughtfully designing different aspects of the environment in which users decide whether to review. This approach, often referred to as *choice architecture*—a term coined by Cass Sunstein and Richard Thaler (the authors of *Nudge: Improving Decisions About Health, Wealth, and Happiness*)—applies to everything from how prompts are worded to how many options a user is given.

In one experiment we ran on Yelp, we varied the messages prompting users to leave a review. Some users saw the generic message "Next review awaits," while others were asked to help local businesses get discovered or other consumers to find local businesses. We found that the latter group tended to write longer reviews.

Fraudulent and Strategic Reviews

Sellers sometimes try (unethically) to boost their ratings by leaving positive reviews for themselves or negative ones for their competitors while pretending that the reviews were left by real customers. This is known as *astroturfing*. The more influential the platform, the more people will try to astroturf.

Because of the harm to consumers that astroturfing can do, policymakers and regulators have gotten involved. In 2013 Eric Schneiderman, then the New York State attorney general, engaged in an operation to address it—citing our research as part of the motivation. Schneiderman's office announced an agreement with 19 companies that had helped write fake reviews on online platforms, requiring them to stop the practice and to pay a hefty fine for charges including false advertising and deceptive business practices. But, as with shoplifting, businesses cannot simply rely on law enforcement; to avoid the pitfalls of fake reviews, they must set up their own protections as well. As discussed in a paper that Mike wrote with Georgios Zervas, some companies, including Yelp, run sting operations to identify and address companies trying to leave fake reviews.

A related challenge arises when buyers and sellers rate each other and craft their reviews to elicit higher ratings from the other party. Consider the last time you stayed in an Airbnb. Afterward you were prompted to leave a review of the host, who was also asked to leave a review of you. Until 2014, if you left your review before the host did, he or she could read it before deciding what to write about you. The result? You might think twice before leaving a negative review.

Platform design choices and content moderation play an important role in reducing the number of fraudulent and strategic reviews.

Set rules for reviewers. Design choices begin with deciding who can review and whose reviews to highlight. For example, Amazon displays an icon when a review is from a verified purchaser of the product, which can help consumers screen for potentially fraudulent reviews. Expedia goes further and allows only guests who have booked through its platform to leave a review there. Research by Dina Mayzlin, Yaniv Dover, and Judith Chevalier shows that such a policy can reduce the number of fraudulent reviews. At the same time, stricter rules about who may leave a review can be a blunt instrument that significantly diminishes the number of genuine reviews and reviewers. The platform must

No matter how good your system's design, spam can slip in, bad actors can try to game the system, or reviews may become obsolete. You need to call in the content moderators.

decide whether the benefit of reducing potential fakes exceeds the cost of having fewer legitimate reviews.

Platforms also decide when reviews may be submitted and displayed. After realizing that nonreviewers had systematically worse experiences than reviewers, Airbnb implemented a "simultaneous reveal" rule to deter reciprocal reviews between guests and hosts and allow for more-complete feedback. The platform no longer displays ratings until both the guest and the host have provided them and sets a deadline after which the ability to review expires. After the company made this change, research by Andrey Fradkin, Elena Grewal, and David Holtz found that the average rating for both guests and hosts declined, while review rates increased—suggesting that reviewers were less afraid to leave feedback after a bad experience when they were shielded from retribution.

Call in the moderators. No matter how good your system's design choices are, you're bound to run into problems. Spam can slip in. Bad actors can try to game the system. Reviews that were extremely relevant two years ago may become obsolete. And some reviews are just more useful than others. Reviews from nonpurchasers can be ruled out, for example, but even some of those that remain may be misleading or less informative. Moderation can eliminate misleading reviews on the basis of their content, not just because of who wrote them or when they were written.

Content moderation comes in three flavors: employee, community, and algorithm. Employee moderators (often called community managers) can spend their days actively using the service, interacting online with other users, removing inappropriate content, and providing feedback to management. This option is the most costly, but it can help you quickly understand what's working and what's not and ensure that someone is managing what appears on the site at all times.

Community moderation allows all users to help spot and flag poor content, from artificially inflated reviews to spam and other kinds of abuse. Yelp has a simple icon that users can post to submit concerns about a review that harasses another reviewer or appears to be about some other business. Amazon asks users whether each review is helpful or unhelpful and employs that data to choose which reviews are displayed first and to suppress particularly unhelpful ones. Often only a small fraction of users will flag the quality of content, however, so a critical mass of engaged users is needed to make community flagging systems work.

The third approach to moderating content relies on algorithms. Yelp's recommendation software processes dozens of factors about each review daily and varies the reviews that are more prominently displayed as "recommended." In 2014 the company said that fewer than 75% of written reviews were recommended at any given time. Amazon, Google, and TripAdvisor have implemented review-quality algorithms that remove offending content from their platforms. Algorithms can of course go beyond a binary classification and instead assess how much weight to place on each rating. Mike has written a paper with Daisy Dai, Ginger Jin, and Jungmin Lee that explores the rating aggregation problem, highlighting how assigning weights to each rating can help overcome challenges in the underlying review process.

Putting It All Together

The experiences of others have always been an important source of information about product quality. The American Academy of Family Physicians, for example, suggests that people turn to friends and family to learn about physicians and get recommendations. Review platforms have accelerated and systematized this process, making it easier to tap into the wisdom of the crowd. Online reviews have been useful to customers, platforms, and policymakers alike. We have used Yelp data, for example, to look at issues ranging from understanding how neighborhoods change during periods of gentrification to estimating the impact of minimum-wage hikes on business outcomes. But for reviews to be helpful—to consumers, to sellers, and to the broader public—the people managing review systems must think carefully about the design choices they make and how to most accurately reflect users' experiences.

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JORG GREUEL/GETTY IMAGES

1. Four Questions to Boost Your Social Media Marketing

→ by DEEPA PRAHALAD and ANANTHANARAYANAN V

COMPANIES OF ALL sizes today are looking to improve the effectiveness of their social media marketing—and with good reason: Digital platforms are constantly innovating the way that brands are discovered, shared, and experienced. The data speaks for itself: The number of worldwide social network users is expected to reach 3.09 billion monthly active users by 2021, and global internet users spend some 144 minutes per day surfing social networks. Many organizations have responded by allocating more resources to digital marketing—technology now accounts for 26% of total marketing expense budgets, according to a recent Gartner estimate, and digital ad spend for 2020 is estimated to be about $385 billion.

Yet these numbers are a double-edged sword. Consumers today react to products, services, and ad campaigns in real time through social media, creating new demands on organizations. Generating and sustaining high levels of engagement and enthusiasm online requires clarity around the firm's goals and values.

Successful digital strategies are not about aesthetics or style but a fit between what your brand promises and delivers. To develop your strategy, ask yourself the following questions:

1. What are your goals?
In the case of start-ups and niche products, your social media marketing strategy may begin with the need to test ideas, create awareness, and build anticipation for new products and services. In other cases, the goals can be far more specific—boosting sales, expanding geographically, increasing real-time brand engagement, or generating quality sales leads.

Once you've set your goals, identify your metrics for success. Are you looking to gain "likes"? Do you want to spark an online dialogue around an issue? Or do you want to inspire behavior change, such as encouraging your followers to recycle? Your metrics must align with your marketing goals.

The sheer volume of available data can make this task challenging. Clearly defined metrics, including a timeline and budget, will ensure that your campaign is on track.

Successful digital strategies are not about aesthetics or style but a fit between what your brand promises and delivers.

Not only do goals allow you to clearly measure your progress, they will also give you a clear answer to the next question you need to ask:

2. Which platforms should we be using?

Decision-making around platforms must be rooted in an understanding of your customer's identity and preferences. Different social platforms appeal to different demographics, and you need to research where your target audience hangs out online. For example, younger audiences may be more effectively reached on newer platforms, like TikTok or Snapchat. Health and wellness brands, with their emphasis on aesthetics, may want to develop a more visual strategy that focuses on Instagram. The same logic applies to geography—WhatsApp is popular in India, whereas WeChat or Weibo is popular in China.

3. What is your content strategy?

Quite often, organizations have the budget, team, agencies, and ideas in place, but they haven't thought deeply about content. This leaves both revenue and goodwill on the table: One survey revealed that 46% of consumers reported they follow brands because of the inspirational content. You must understand what types of content—for example, articles, videos, pictures—will drive engagement with your audience. Great content strategies create conversation and sharing with the brand and among other users.

Your content should be unique, useful, and shareable. For example, one of the authors (Deepa) is currently working with Arogya World, a global health nonprofit, on a campaign to help establish some common understanding around healthy eating in India. Inspired by the U.S. government's MyPlate.gov initiative, we worked with a leading design firm to translate the Indian government's complex nutritional guidelines into a simple picture for both North and South Indian cuisine, showing cooked quantities and meal plan options for various ages and lifestyles. The graphic will be rolled out on social media and in its Healthy Workplace program, which covers 3 million employees.

If your content is sensitive, your content strategy should consider that. For example, Techdivine, a firm owned by one of the authors (Ananthanarayanan), once worked with a client in the mental health industry who was concerned about the lack of engagement on their Facebook page. It quickly became clear that most users were not comfortable engaging on this issue on a public platform. We reoriented the strategy to encourage users to chat with the brand by using the private messaging options of social networking sites. We also created resources that allowed people to get answers to their questions securely with expert articles shared via exclusive password access through private chats on social networking platforms.

4. Are you ready to talk with your audience—in real time?

Social media interactions are two-way—driven by both brands and consumers—so your organization needs to show that it is listening and engaging with questions, concerns, and suggestions. Companies that seize a moment can generate brand awareness and goodwill. For example, when a Twitter user recently mocked a South African man who proposed in a KFC restaurant, the fast-food chain responded by providing the couple with a wedding planner. Many other brands, including Coca-Cola, Woolworths, and Audi, also chipped in to support the couple, showering them with gifts and experiences.

Social media offers brands the opportunity to create memorable experiences. Techdivine once saw a tweet from someone traveling from Manhattan to Chicago for the first time, mentioning that she was looking for something spicy to eat. We looked back at her earlier tweets, which hinted at an interest in the arts. So, on behalf of our client, a restaurant based out of Chicago, we welcomed her to the Windy City and shared links to interesting art events and activities around the city. We made sure not to pitch our restaurant prematurely. Curious to know who we were, she thanked us for our tweet and inquired about our restaurant. At this point, we sent her a beautiful collage of some popular spicy dishes the restaurant served, along with a map and a deal she could unlock if she visited the restaurant and tagged the brand by checking in. Needless to say, what followed was a visit from not only her but many others who saw this conversation online.

Brands today have a much greater ability (and responsibility) to inspire and connect with consumers. Trusted brands are more likely to attract business, and social

media is a powerful tool to create engagement, gain feedback, and build trust with your audience. By answering the above questions, you can ensure that your social strategy aligns with your goals and adds value for your users.

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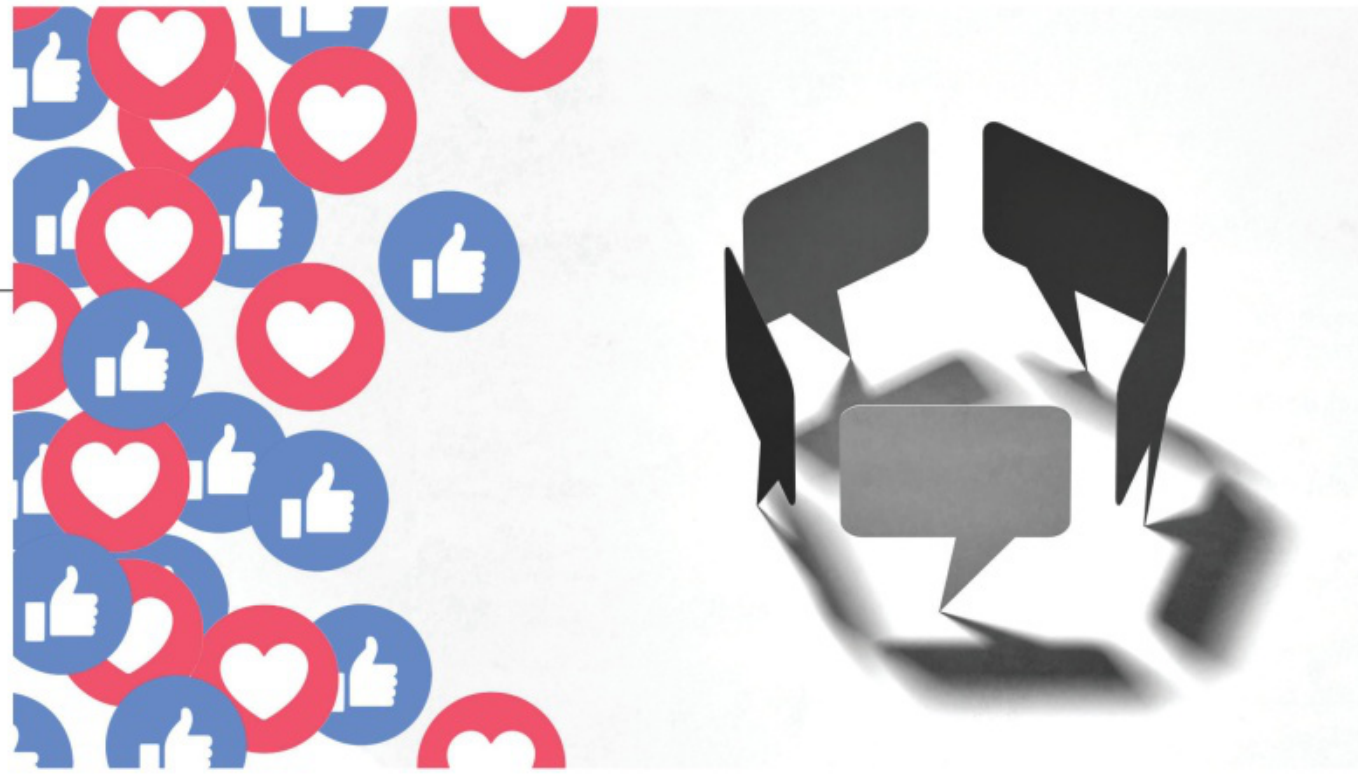

2. The Era of Antisocial Social Media

→ by SARA WILSON

SOCIAL PLATFORMS ARE still reporting robust growth—yes, even Facebook—despite a growing chorus of opposition. Social conversation continues to shape everything from culture to the media cycle to our most intimate relationships. And we now spend more time than ever on our phones, endlessly scrolling through our social feeds.

But dig a little deeper and a more nuanced picture about today's social media users emerges that has important implications for the ways in which brands reach customers. Specifically, when you look at who is—and more important, who is not—driving the growth and popularity of social platforms, a key demographic appears to be somewhat in retreat: young people.

According to 2019 findings from Edison Research and Triton Digital, social media usage overall among Americans ages 12 to 34 across several platforms has either leveled off or is waning, and 2019 research from Global Web Index suggests that the amount of time Millennial and Gen Z audiences spend on many social platforms is either flat, declining, or not rising as greatly as it has in years' past.

To understand what's driving this shift, you need only talk to young people. They're saying that after years spent constructing carefully curated online identities and accumulating heaps of online "friends," they want to be themselves and make real friends based on shared interests. They're also craving privacy, safety, and a respite from the throngs of people on social platforms—throngs that now usually include their parents.

To reach these younger audiences on social media, marketers need to rethink their approach. The first step is to understand the distinct characteristics of these more closed, and often more private and interactive, online spaces. Because I believe that naming a trend helps provide a framework for understanding it, I have dubbed these spaces "digital campfires."

If social media can feel like a crowded airport terminal where everyone is allowed but no one feels particularly thrilled to be there, digital campfires offer a more intimate oasis where smaller groups of people are excited

HBR STAFF/JORG GREUEL/GETTY IMAGES

to gather around shared interests.

There are three categories of digital campfires: private messaging, microcommunities, and shared experiences. Some digital campfires are a combination of all three. Let's examine the characteristics of each, as well as how brands are successfully navigating the challenges of reaching the audiences in these environments.

Private Messaging Campfires

Private or small-group messaging—usually but not always with one's real-life friends—is the primary purpose for gathering.

In a 2019 survey from ZAK, a youth-focused creative agency, nearly two-thirds of the 1,000 people polled, all younger than 30, said they prefer to talk in private message threads rather than on open forums and feeds. Sixty percent of respondents stated that talking in private groups means they can "share more openly."

Private messaging campfires often exist on traditional social platforms. Facebook Messenger and WhatsApp are among the most well-known examples. According to the ZAK survey, 38% of people younger than 30 use Facebook only for the private messaging function. Instagram, the rare platform that is showing an upward usage trend among younger Americans, recently launched a new stand-alone app called Threads, designed expressly for quick-fire messaging with close friends via camera and text.

For the most part, brands aren't invited into these private chats. Some have responded by adapting similar technologies, like texting (whether with actual humans or human-seeming chatbots), to mimic the intimacy of personal conversations with friends.

For example, Text Rex is a members-only, text message–based, personalized restaurant recommendation service from the dining review site The Infatuation (a favorite among Millennial foodies). Users can text questions like "Where should I take my date in midtown Manhattan?" or "What's the best midday sushi in Santa Monica?" and receive answers from actual humans (Infatuation staffers).

Similarly, there's Community—another text-based service that launched last year to help corporations, stars, and high-profile individuals facilitate direct conversations with their fans via text messaging "without getting buried by social feeds and algorithms." Community's primary users are celebrities (among them, Kerry Washington, Amy Schumer, and Paul McCartney). But some fashion and lifestyle brands like Madhappy, APL, and Beautycon have already signed on, and the opportunity for brands to speak more directly to their customers via a channel they're already using is a promising development.

TIP: *This is the hardest campfire for marketers to penetrate. Get to know your audience intimately in ways that go way beyond simple demographics. Specifically, work to understand their habits—especially how they consume content and communicate across multiple platforms—and use this to inform the channels on which you communicate with them. Think about how you can reach customers by mimicking their behavior.*

Microcommunity Campfires

Primarily interactive private or semiprivate forums allow people to gather around interests, beliefs, or passions.

Like the private messaging campfires, microcommunity campfires often live on traditional social platforms. Facebook Groups are probably the best-known example. The "close friends" feature within Instagram Stories has become a tool some influencers are using to share exclusive content and interact with small groups of their followers, for a fee. Slack, best known as a workplace messaging tool, is also a place where microcommunities are connecting, often around shared professional interests.

YouTube has long been a hub for hyperspecific communities, and that's still the case today, especially among teens. Sure, anyone can watch or engage with a YouTube video, but the cornucopia of channels means there's something for every conceivable niche interest. For a user, the effect of wading through a vast sea of content to stumble upon something meaningful—combined with the intimacy engendered by the direct-to-camera style of videos on the platform, and the loyalty that comes from subscribing to creator channels—can feel revelatory. (The same cannot be said of the Chinese-owned app TikTok, which, while growing at a phenomenal clip, is largely oriented around the consumption of a seemingly endless feed

Marketers must identify the communities that their brand fits into and then determine the online experiences these audiences seek.

of entertaining videos served up by an algorithm. It does not allow the user to intentionally connect to specific interest communities.)

Microcommunity campfires can also spark in unexpected places. Young people are gathering, for example, on Discord—a voice and text chat platform designed for gamers that has become something of an under-the-radar hub for beauty obsessives, with multiple servers devoted to topics like advice about makeup or cruelty-free products.

Brands can tap into existing microcommunity campfires by partnering with influencers, or they can invest time and resources to build their own campfires from scratch—a heavier lift, of course, but if the brands doing it well are any indication, it's well worth the effort.

One example is Sprite, which spearheaded a campaign for the Latin American market last year called "No Estás Solo" ("You Are Not Alone"). Working with an agency, the company used data from Google to determine personal pain points that young people were searching. It then set up Reddit forums, each helmed by an influencer who had personal experience with issues such as feeling like you're in the wrong body. The outcome: poignant personal discussions about loneliness, all led by Sprite.

Another example is the private Slack group created by beauty brand Glossier, often called one of Millennials' most trusted brands. Created exclusively for its best customers to talk about all things beauty, organize meetups, and discuss products, the brand credits the group with helping cocreate one of its now-top-selling products, Milky Jelly Cleanser. At one time, this type of forum might have been dubbed "market research." Today, it also serves as an engine for fandom while simultaneously allowing the company to be nimble and responsive to anything that is discussed there.

TIP: *These campfires are not indexed by Google or advertised on the platforms themselves, so they're hard to find by traditional means. Study your audience to find bread crumbs that will lead you to their microcommunity campfires. Then, partner with an existing campfire or create your own.*

Shared Experience Campfires

Private or public forums where participating in a shared experience—often around a specific shared interest—with a like-minded community is the primary purpose for gathering.

Perhaps the best example of this type of campfire is Fortnite, a multiplayer video game that has more than 200 million users, up to 8 million of whom are online at any given time. The game has been called a de facto social network thanks to the role it occupies in the lives of its players: Indeed, half of teens say they use it to keep up with their friends—some of whom they've never actually met in person—with most spending six to 10 hours each week on the platform. Last year, the EDM artist Marshmello staged a virtual concert inside the game that 10.7 million people "attended." Fortnite is a form of entertainment, but more than that, it's a catalyst for bringing together like-minded people for a shared experience. And the game's steep learning curve lends it an aura of exclusivity.

The live broadcasting and viewing platform Twitch serves a similar function. Live streamers, primarily gamers, broadcast their own game play, usually with audio commentary, for fans who can watch and interact via chat. Twitch users consumed 592 billion minutes of live-stream content last year, and Twitch has recently pushed into nongaming categories like music and sports. As with Fortnite, the primary draw to Twitch is its entertainment value, but the "stickiness" comes from the community and sense of excitement that forms around a shared interest or individual.

So how can marketers zero in on the right shared-experience campfires for their audience? As with the other campfires, they must first identify the communities and parts of the culture that their brand fits into. Then, they should determine the online experiences these audiences seek. Brands like the NFL, Marvel, and Nike have done just that, leveraging Fortnite, for example, to reach their audiences by selling skins (stylized weapons and outfits for players' in-game avatars), creating branded mash-up game modes, and doing limited-edition product drops inside the game.

TIP: *Customization is key. Don't simply replicate what you're doing on other platforms—it will come across as ham-fisted. Instead, pay close attention to the behavior of the people in the*

campfire you want to reach, think about what value you can bring to them, and then get creative about the products and messaging you'll use to engage them.

Without question, the digital campfire trend is firmly on the radar of the big social platforms. "Today we already see that private messaging, ephemeral stories, and small groups are by far the fastest growing areas of online communication," Mark Zuckerberg wrote in a March 2019 public post, announcing a strategic shift toward more closed, private modes of communication.

Zuckerberg is paying attention to this shift not only because the data shows that Facebook is losing young audiences but because the redirection of attention to more-private modes of communication represents a major challenge for the company. About 98% of Facebook's revenue comes from advertising, and people in smaller, more-closed forums are much harder for advertisers to reach at scale.

It is neither simple nor straightforward to reach audiences gathered around digital campfires. But as traditional social platforms grow, they become more crowded, and it becomes more difficult and expensive to reach people there anyway. In light of this, digital campfires become a much more attractive alternative—one that requires more groundwork and more careful tending, but one that could potentially have big payoffs for brands in terms of loyalty, retention, and long-term love.

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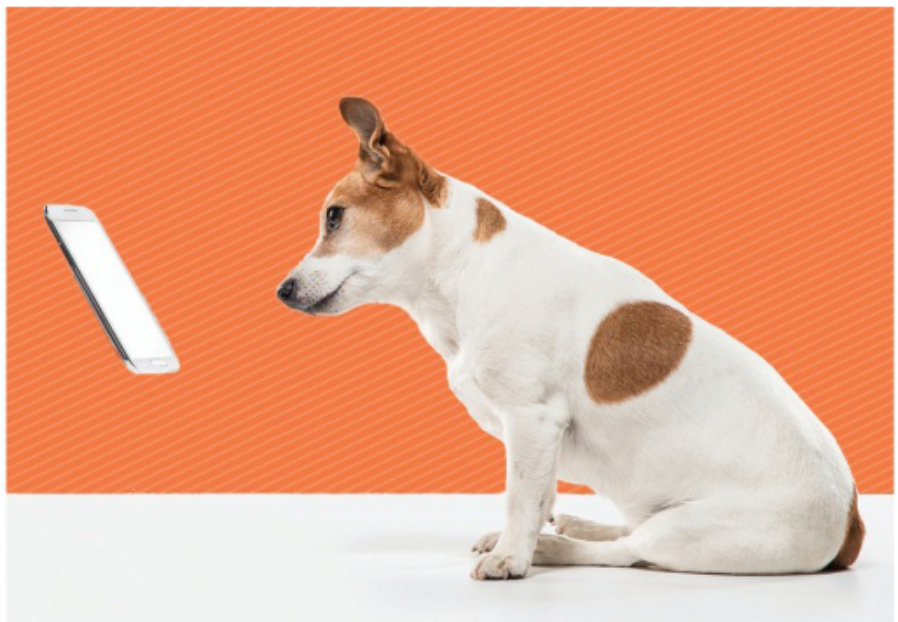

PM IMAGES/GETTY IMAGES

3. Using Social Media to Connect with Your Most Loyal Customers

→ by MICHAEL A. STANKO, BLANCA ISABEL HERNÁNDEZ ORTEGA, FRANCISCO-JOSE MOLINA-CASTILLO, RISHIKA RISHIKA, and JOSÉ FRANCO

MORE AND MORE companies have loyalty programs—and for good reason. A recent industry report showed that loyalty-program members not only spend more and remain customers longer but also are more likely to spread positive word of mouth. This helps explain why we've seen a proliferation of programs popping up across sectors like cosmetics, fast foods, and hotels. Target, for example, launched their Target Circle loyalty program ahead of this year's holiday shopping period, after extensive test marketing showed increased spending for program members compared with those who were not enrolled.

Given that loyalty-program members tend to be a brand's most valuable customers—and are already several steps into their journey with a brand—companies need to consider how they are communicating with them across different

channels. Our research (in progress) shows that social media in particular can make loyalty programs more effective in driving sales, but only if done right.

We analyzed social media messages and the impact on loyalty-program and non-loyalty-program online sales for a European operator of snow tourism resorts. We first scored 3,500 of the company's Facebook posts using the five dimensions of brand experience. Each post was rated by social media experts on each of the dimensions. Relational posts make a connection beyond the recipient, for instance, encouraging the use of a product together with others or as part of a tribe of interested consumers. *Intellectual* posts prod the recipient to engage in conscious mental processing, perhaps through humor, problem-solving, or creativity. *Behavioral* posts include activity or interaction with the product or service. *Sensory* posts stimulate the senses and could involve breathtaking images or shocking multimedia content. Finally, *emotional* posts attempt to generate moods or feelings in the recipient. Once the posts were scored, we then analyzed the efficacy of each dimension in driving sales to loyalty-program and non-loyalty-program customers.

Which Dimensions of Social Media Experience Were More Effective?

We found that relational and intellectual posts were most effective in driving sales for loyalty-program customers, whereas behavioral posts drove more sales from non-loyalty-program customers. Interestingly, sensory and emotional posts weren't effective with either group in our study.

Relational messages connect the recipient to a larger community around the product or service, strengthening a feeling of belongingness. Posts rated high on the relational dimension tend to illustrate inclusiveness or the connections between people. Because loyalty-program customers have an ongoing relationship with the brand, they appear to be more open to relational themes, whereas non-loyalty-program customers may be less drawn to relational messages from brands they are not already strongly connected with. One particularly effective post from the resort we studied promoted family-focused resort activities, with imagery of cross-generational connections. Loyalty-program sales associated with this post were 210% more than expected based on the resort's typical ratio of loyalty-program to non-loyalty-program sales.

Intellectual posts were also more effective with loyalty-program customers. These customers are more invested in the brand and are therefore more likely to put forward the mental effort to engage mindfully with a detailed intellectual post. One of the resort's posts rated high on this dimension included a comprehensive list of festival activities with a stylized map, which requires careful consideration and processing from the recipient. This post resulted in an 85% increase in loyalty-program sales compared with expectations. Members-only retailers such as REI and BJ's Wholesale often take advantage of intellectually demanding posts by including detailed product content (and in REI's case, outdoor lifestyle content). These posts require investments to both produce and consume the content, but brands see the value, knowing that their curious members are looking to deepen their brand relationship.

Behaviorally themed posts can be effective with both customer groups but were most effective in driving non-loyalty-program sales in our study. These posts typically require less mental energy to process, and they encourage non-loyalty-program customers to visualize how they might interact with a product or service. One specific resort post that was rated high on the behavioral dimension mentioned leaving for the weekend and getting out to the slopes, with imagery showing a familiar behavior: getting off the chairlift. This post led to an 82% spike in non-loyalty-program sales compared with expectations. One possible implication of this finding is that newer brands, which don't yet have a large base of loyal customers, could focus on behaviorally themed messages in their social media with easily relatable messaging around physical interaction with the product or service to drive sales from not-yet-loyal customers.

The resort's posts that were rated high on sensory and emotional content weren't effective in driving sales from either customer group. This may be because the social media environment is a metaphorical screaming match, with a variety of posts vying for viewer attention. "Turning up the volume" through striking

visuals or multimedia in this already overstimulating setting wasn't an effective way to reach either group of customers. Similarly, emotional content that appealed to customers' feelings did not effectively drive sales from either group. This may be because browsing social media can be emotionally exhausting, so further taxing customers' emotions doesn't work.

Many brands are struggling to capture value from their loyalty programs and trying to figure out how to best use social media to communicate with these customers. Some companies have set up distinct social media accounts for their programs. For example, Marriott's newly launched Bonvoy program has very active social media accounts on Twitter, Facebook, and Instagram, which are run separately from Marriott's flagship accounts. This allows Bonvoy to focus on content that loyalty-program members value.

While our findings are based on the social media activity and financial results from one company (and we haven't yet proven that they apply to businesses operating in different domains), they provide digital marketers with some clues on what works and what doesn't—and gives them a language to consider and communicate desired characteristics for their content. When trying to drive sales from loyalty-program customers, think through what might be most effective (relational and intellectually themed content) and what could fall flat (attempting to shock the recipient with sensory or emotional content). And then post accordingly.

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DAVID MUIR/GETTY IMAGES

4. How to Design Product Pages That Increase Online Sales

→ by COLLEEN M. HARMELING, ALEXANDER BLEIER, and ROBERT W. PALMATIER

NO MATTER THE size of your brand or the nature of your product, Amazon provides a storefront with access to millions of potential customers every day. But with hundreds of millions of products on display, competition is fierce. Sales depend not only on having superior offerings but also on how effectively product web pages create customer experiences that convert visitors into buyers. How do you create these kinds of experiences on Amazon?

Our research shows that carefully orchestrating the content on your product's Amazon page is the key to boosting sales. Importantly, the online customer experience is about more than just conveying product information. It must also entertain, provide a human touch, and mimic the sensory sensations that products evoke in the offline world. Moreover, although designing product pages with a cookie-cutter approach may seem appealing when you have hundreds (or thousands) of products to sell, our research suggests that one-size-fits-all designs no longer work.

To succeed on Amazon, companies must design pages that create the most effective customer experience for their products or brands. Our studies show that the type of page design that will most resonate with your customers depends on (1) the trustworthiness of your brand and (2) the degree to which customers can evaluate the product by reading about it rather than

experiencing it (for example, by touching it or trying it on). With this in mind, we found that a single design element on an Amazon page, when used effectively, can increase purchase intentions up to 10%—a substantial amount in today's competitive online retail environment.

To study the best ways to design pages for specific brands and products, we ran 16 experiments in the lab and one in the field.

Our Methodology

For the lab studies, we leveraged a Taguchi experimental design that allowed us to test the effects of 13 design elements (such as picture size, linguistic style of text, descriptive detail, and product video) for 16 real-world products. The products were from 11 real brands, and we created 256 look-alike Amazon product pages to run the tests in a controlled lab setting. We recruited more than 10,000 participants and showed each of them one of the mock-up product pages, asking them about their perception of the page and how likely they were to buy the product.

Through these experiments, we found that online customer experiences have four dimensions: informative, entertaining, social, and sensory. While the entertaining aspect generally has the strongest influence on purchase (followed by the informative, social, and sensory aspects), the relevance of each dimension depends on the specific product and brand. For example, with *search products* (those that customers can shop for by evaluating factual information about them), we found that a more informative experience can increase sales, whereas a more social experience—one that emphasizes a web page's warmth, sociability, and human touch—may suppress sales. By contrast, *experience products* (those that typically require a customer to physically examine them) benefit from a more social and sensory experience.

Our collaboration with our partnering firm allowed us to validate some of our findings by running a field experiment on Amazon.com to test real-world sales. We selected three search products (wireless internet routers) with similar characteristics and historic sales trends from our partner firm's inventory. We adapted the Amazon pages of two products to be either more informative or more social and left the third page unchanged as a control condition. For the next four weeks, we observed the daily sales of all three products. A corresponding difference-in-differences analysis confirmed our insights from the lab: Search products benefit from a more informative experience but not from a more social experience.

The result of our studies led us to create a three-step design guide that can help companies increase their sales in online retail environments such as Amazon.

STEP 1

Know Your Brand and Product

Before starting to build an Amazon page for any of your products, you should ask two questions:

How much do current and potential customers trust your brand? Knowing your brand's trustworthiness will help you estimate customers' uncertainty when they decide whether to purchase your product. The best way to measure your brand's trustworthiness is to directly ask a sample of consumers. In our research, we surveyed people with statements such as: "[Brand] seems to have much knowledge about what needs to be done to fulfill online transactions"; "[Brand] appears to be well qualified in the area of e-commerce"; "[Brand] appears to try hard to be fair in dealing with others"; and "Sound principles seem to guide [Brand]'s behavior." Participants responded on a scale from 1 (strongly disagree) to 7 (strongly agree).

How easily does your product convert to an online selling format? Some products lend themselves more naturally than others to online selling. Take, for example, clothing and electronics. A customer searching for a blouse quite likely wants a sense of how the item will look and feel. By contrast, a customer shopping for a wireless internet router is interested in product specs and how its features compare with those of similar routers, which are easily presented through text. Clothing, food, and beauty items are experience products; wireless routers, books, and board games are search products. Whatever your product is, determining what type of experience customers are looking for and catering to those expectations will maximize the effectiveness of your online sales efforts.

STEP 2

Inventory and Audit Your Design Assets

Before you create the product page, it is important to figure out which design

To create the most effective online experiences, remember that entertainment generally exerts the strongest effects on customer purchase.

assets you have available. It's easy to treat Amazon product pages as an afterthought and simply recycle text and images from your other sites. While reusing assets such as product descriptions, pictures, or videos is a good way to start, your Amazon page doesn't always need all available elements. Depending on your product, some just might not be necessary, and others should be avoided.

And there may be additional elements that would be useful if you had them. New content can be costly to create (think of product videos) and should be invested in only if it will contribute to the right kind of customer experience for your product. For example, when selling a wireless internet router, employing a conversational tone and glossy pictures of people using the product might be distracting and detrimental to the product's sales. Instead, you might want to focus on developing comparison charts that allow customers to quickly assess product specs.

STEP 3

Create the Customer Experience

To create the most effective online experiences, remember that entertainment generally exerts the strongest effects on customer purchase, followed by the informative, social, and sensory aspects of the customer experience. To determine which aspects to strengthen, combine product and brand knowledge (step 1) with an assessment of your digital assets (step 2). Begin by auditing your current pages to see how they match up with the recommendations below. Then, determine which approach is right for you to boost sales.

You're selling a search product. Strengthen the informational aspects of your product page. When shopping for search products, consumers can gather the information they need to make a decision from the page's text and visual elements. To build a more informative product page:

- Use text blocks that detail the product's important attributes, such as size, functions, or uses
- Summarize and emphasize product information using several bulleted features
- Add charts that compare the product with similar products along relevant criteria (attributes, warranties, compatibilities, and so forth)

You're selling an experience product. Strengthen the social and sensory aspects of your product page. Online shoppers often have high purchase uncertainty about experience products, because they cannot touch, feel, or directly interact with them. Simply offering more product information does not always solve this problem. Instead, provide sensory-based signals or signals that convey social, human elements.

To strengthen the social aspect:

- Describe the product in a personable manner, through a conversational style that uses adjectives ("Wouldn't you like faster internet?") and pronouns ("you," "your")
- Add lifestyle photos that show the product in use; if possible, feature human actors
- Directly display all relevant information; avoid "show more" buttons, which require the customer to decide how much content appears on the page

To strengthen the sensory aspect:

- Add a video to display the product in an appealing, engaging way
- Include a cropped photo that highlights a key attribute of the product by zooming in on it; this helps shoppers better understand the product and its features

Your brand is trusted. Here, too, strengthen the informational aspects of your product page. The more trusted your brand is, the more consumers will find information relevant and helpful for their decision-making. To build a more informative page:

- Use text blocks that detail the product's important attributes, such as size, functions, or uses
- Summarize and emphasize product information using several bulleted features
- Add charts that compare the product with similar products along relevant criteria (attributes, warranties, compatibilities, and so forth)

Your brand isn't trusted. Strengthen the entertainment aspect of your product page. An entertaining page can often overcome the uncertainty people feel toward an unknown or less-trusted brand. Entertainment is also helpful when consumers might rely more on emotional cues and feelings than on product information. Some simple ways to strengthen the entertainment aspect:

- Increase the size of product pictures
- Highlight customer star ratings

Using these guidelines to build the most effective customer experience for each of your brands and products can give you an edge in the competitive online retail environment. After all, customers have many, many choices when buying products. If your product pages don't attract them, a competitor's will.

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Special thanks to the team at content26 for their instrumental involvement in the execution of this research.

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5. Content Is Crap, and Other Rules for Marketers

→ by GREG SATELL

UNTIL FAIRLY RECENTLY, the options for marketers were relatively limited. Mass media—TV especially—offered the opportunity to reach millions but only in the form of short ads sandwiched between lots of other stuff. Other tactics, such as trade shows, offered high engagement but low reach.

Digital technology and social media offer the best of both worlds—the ability to reach, and engage, millions of people. Nike videos on YouTube routinely attract more than 10 million views. Coke has nearly 100 million followers on Facebook. Red Bull has its own TV channel.

Yet despite these scattered successes, most marketers' content efforts are failing. The Content Marketing Institute reports that although the majority of B2B and B2C marketers have some kind of content marketing program, less than 40% find those efforts effective. Clearly, things need to improve. Here are four places to start, based on the most common mistakes I see digital marketers make:

1. Recognize that content is crap. The idea that content is king, in its current usage, comes from a remarkably prescient 1995 essay by Bill Gates in which he called the internet—still an emerging technology at the time—a marketplace of ideas, experiences, and products. He then proceeded to make failed investments in Encarta, MSN, and MSNBC (MSNBC became profitable after he divested).

Think about that. Bill Gates, a man of extraordinary talent and fortune, who has succeeded brilliantly in just about anything he has ever done, saw with remarkable accuracy how the future would play out, put his money behind it, and failed spectacularly.

The problem is that content isn't king. Content is crap.

We never call anything that's good "content." Nobody walks out of a movie they loved and says, "Wow! What great content!" Nobody listens to "content" on their way to work in the morning. Do you think anybody ever called Ernest Hemingway a "content creator"? If they did, I bet he would have punched them.

Yet, while content—a commodity to be acquired, distributed, and leveraged—remains a fiction in the minds of business planners, digital technology has

KIRSTY LEE/EYEEM/GETTY IMAGES

given marketers enormous opportunities to publish and produce. To take advantage of those opportunities, marketers need to shift their mental models and think more like publishers.

2. Don't just grab attention—hold it. After decades of creating advertising, many marketers have built up strong skill sets in some content-related areas. Most have learned their way around the design studio and the video production set. Many have built up web development and user-experience capabilities. So creating engaging content doesn't seem like it should be much of a challenge.

The problem is that content is not a long-form version of advertising. Marketing campaigns are designed to grab attention. A witty gecko lizard with a cockney accent, a talking tiger, or even just a snappy jingle can raise awareness and sell product. But that's no longer enough.

Today, marketers need to build an ongoing relationship with consumers, and that means holding attention, not just grabbing it. To get people to subscribe to a blog, YouTube channel, or social media feed, you need to offer more than a catchy slogan or a clever stunt. You need to offer real value, and offer it consistently.

To do this, brands need to start with a clear mission and think seriously about the experience they want to create. Success will not come from putting a clever spin on facts but by uncovering powerful stories and telling them well.

3. Don't overoptimize metrics. Marketers optimize their campaigns for particular metrics, usually some combination of awareness, sales, or advocacy. This directs strategy toward action and instills accountability into the process. Clients and executives, understandably, want to know they are getting a solid return on their investment.

Yet it's also easy to confuse measurement with meaning.

For instance, a few years ago, overattention to page views drove marketers and publishers alike to use clickbait headlines. The problem, as BuzzFeed's Ben Smith has explained, is that publishers who are optimizing for page views—which are really just clicks—are betraying the reader's trust. The best headlines, he argues, offer a promise to readers and then overdeliver.

Marketers have a variety of metrics to evaluate what they publish and produce, including page views, video views, length of viewing, social media shares, and so forth. Yet none of these will tell you whether you have communicated a clear promise and are delivering on it. Optimize for mission, not metrics.

4. Understand that publishing is a product, not a campaign. Marketers launch campaigns for many reasons, such as promoting a new product, driving sales for a promotion, or picking up their net promoter score. These are all valid objectives, and traditional campaigns are well suited to achieving them. Yet as I noted above, publishing offers marketers the ability to hold attention, not just grab it.

That's especially important in a digital environment because every consumer action related to a campaign can be tracked by competitors, allowing them to retarget customers who show an intent to purchase. In effect, if you restrict marketing activity to promotional campaigns, you will end up providing your rivals with a free lead-generation service.

Publishing is different. It's not a promotion; it's more akin to product development. That means clearly defining an editorial mission, identifying benchmarks, and establishing a clear structure.

Unlike a TV campaign or digital, where you can expect an immediate benefit that dissipates almost as quickly, brand publishing establishes an ongoing, trusting relationship with consumers that lasts beyond the present sales cycle.

Most of all, marketers need to create a compelling experience. Again, that doesn't happen overnight. To become successful publishers, marketers need to look beyond this quarter's objectives or the next campaign and treat their editorial mission as seriously as they do that of their brands.

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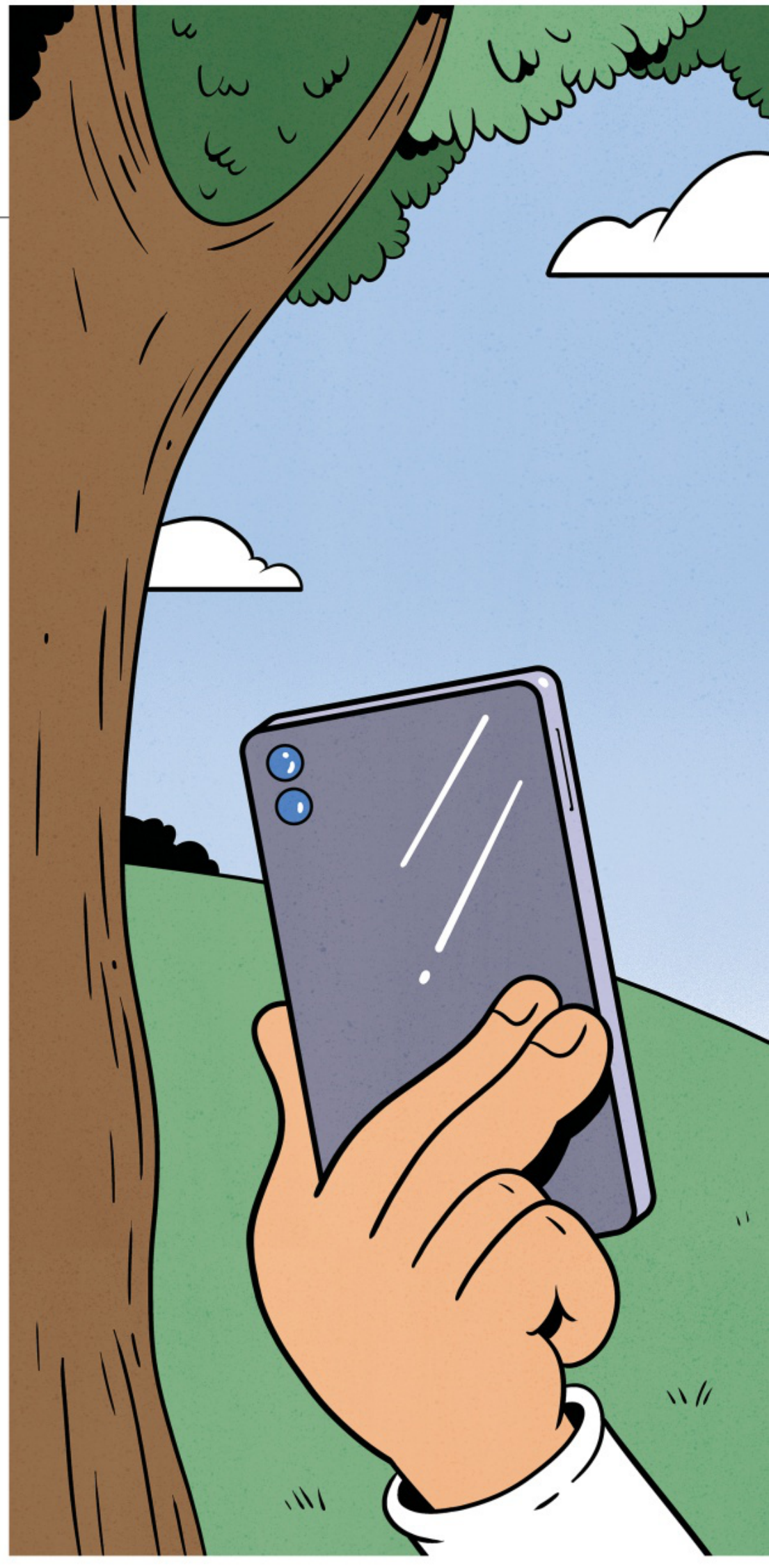
The Next Great Digital Advantage

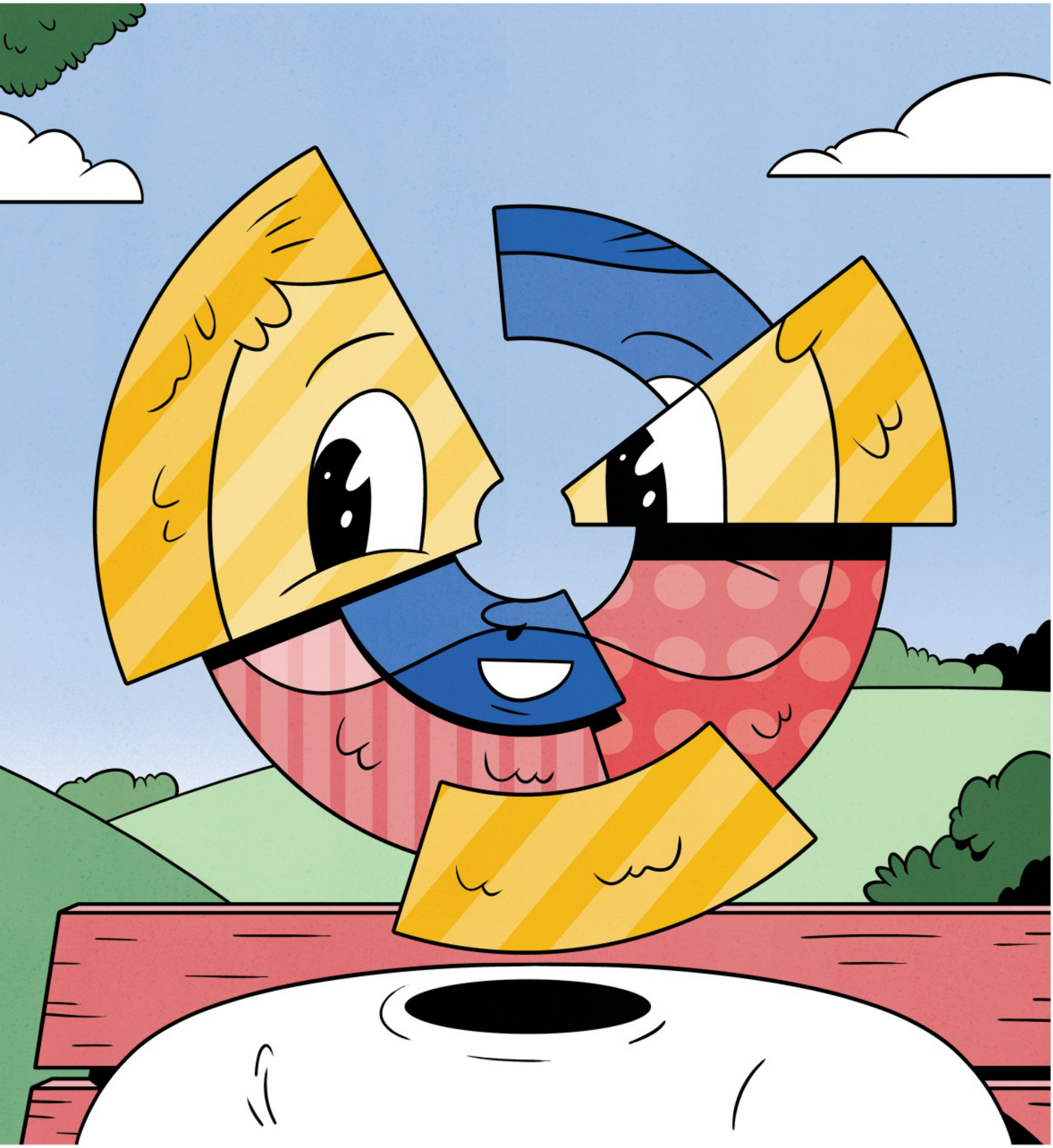
Smart businesses are using datagraphs to reveal unique solutions to customer problems.

→ by VIJAY GOVINDARAJAN
and N. VENKAT VENKATRAMAN



OF THE 4,000 products Amazon sells every minute, approximately 50% are presented to customers by its personalized recommendation engine. When you visit the site, its algorithms select an assortment of products from about 353 million items and arrange them for you according to what they predict you will want at that precise moment. These recommendations are powered by Amazon's ever-evolving purchase graph, which is a digital representation of real-world "entities"—anything about which it stores information, such as customers, products, purchases, events, and places—and the relationships and interrelationships among them. Amazon's purchase graph connects purchase history with browsing data on the site, viewing data on Prime Video, listening data on Amazon Music, and data from Alexa-enabled devices. Its algorithms use collaborative filtering—incorporating factors such as diversity (how dissimilar the recommended items are); serendipity (how surprising they

Illustration by **RYAN SNOOK**



are); and novelty (how new they are)—to generate some of the most sophisticated recommendations on the planet. Thanks to its rich data and industry-leading personalization, Amazon now owns 40% of the U.S. e-commerce market; its closest rival, Walmart, has a market share of only 7%.

To compete with Amazon, in April 2021 Google announced its Shopping Graph, an AI-enhanced model that recommends products to users as they search. More than a billion people research products on Google each day, and Shopping Graph connects them with more than 24 billion listings from millions of merchants across the web. It builds on Google's unparalleled Knowledge Graph, which captures information about the entities in its vast network and the relationships among them, including structured and unstructured data from Android, voice and image search, Chrome browser extensions, Google Assistant, Gmail, Photos, Maps, YouTube, Google Cloud, and Google Pay. With its Shopping Graph—which lets 1.7 million merchants feature relevant listings across Google using simple but interlinked tools—Google is ready to meet Amazon's challenge.

Datagraphs like Amazon's and Google's rely on product-in-use data—that is, data on the behavior of customers as they use a platform or a product—to capture the connections, relationships, and interrelationships between a company and its customers. The datagraph concept is inspired by social network and graph theory, wherein a social graph is defined as a representation of the interconnections among individuals, depicted as nodes, and the relationships among them—with friends, colleagues, supervisors, and so on—represented as links. The concept derives from the work of the social psychologist Stanley Milgram, and over the past two decades, it has provided a useful lens for analyzing the structure and dynamics of organizations, industries, markets, and societies. Facebook popularized the digital social graph in 2007 when it introduced Facebook Platform, a tool that allowed developers to build applications that were integrated into the site's information flow and connections of relationships.

Leading technology companies are using datagraphs to personalize customer recommendations, update products, optimize advertising, and more. The most successful examples—which include Amazon's purchase graph, Google's search graph, Facebook's social graph, Netflix's movie graph, Spotify's music graph, Airbnb's travel graph, Uber's mobility graph, and LinkedIn's professional graph—leverage the ongoing collection of customer engagement data, coupled with proprietary algorithms, to outcompete rivals in every way, from product creation to user experience.

This article discusses how companies can learn from the best practices of datagraph leaders to gain new competitive advantage.

Data Network Effects

To understand datagraphs, we first need to understand *data network effects,* which occur when data generated by users as they engage with a product or service makes it more valuable for other users. Unlike direct network effects, in which the value of a service grows as additional users join (as with Facebook or LinkedIn), data network effects do not require increasing numbers of users to enhance the value of the network. Instead, the continued engagement of current users generates broader and deeper product-in-use data, which allows algorithms to generate ever-improving results. For example, every one of Google's 2 trillion annual searches helps the company enrich its Knowledge Graph and improve its search engine, which generates better and better search results for users. By contrast, if users stop engaging on the platform, it becomes stale and less useful.

Datagraphs are not static; they do not reflect information at a snapshot in time. They are dynamic, reflecting what data scientists refer to as *data in motion*. That's partly why it is impossible to manually draw a datagraph. Technology is needed to gather and interpret in real time the data on the millions of units of a company's products that consumers worldwide may be engaging with at any given moment.

Datagraph Success Factors

Datagraph leaders gather customer behavioral data and quickly incorporate what they learn to improve every aspect of their products and services. They constantly refine how they classify and label product data and uncover relationships among entities so that algorithms can better group offerings for personalized recommendations. And they continually update their algorithms so that the personalized recommendations are based on the most current and relevant

Datagraphs capture how people work, play, learn, socialize, transact, travel, and do any other activity that can be associated with commerce.

data, which helps improve and prolong customer engagement. Let's take a look at the key behaviors of companies that use datagraphs successfully.

They learn at scale and speed. Datagraphs capture how individuals live, work, play, learn, listen, socialize, watch, transact, travel, spend, and do any other activity that can be associated with commerce. Digitalization has made it possible to observe and codify customer data in all these areas at scale, scope, and speed. Facebook's social graph, for example, analyzes data on 2.8 billion individuals and their social activities from moment to moment: what they're doing, whom they're friending and unfriending, where they're traveling to, what brands they're talking about, what movies they're watching, what music they're listening to, and so on. LinkedIn's professional graph captures in real time how 774 million professionals who work in more than 50 million companies and attended 90,000-plus educational institutions respond to job postings, status updates, and live videos. Moreover, it maps members to other entities, such as the skills they have, to serve users targeted ads, learning suggestions, news feeds, and more. LinkedIn is now a subsidiary of Microsoft and part of its data ecosystem, which allows it to create an even more vibrant datagraph.

At traditional companies, customer data is stored as independent records in various functional databases. To gain digital advantage, companies must organize data as a graph of interactions that are analyzable by algorithms that provide insight and deliver personalized value to every customer.

They use datagraphs to enrich product offerings. Datagraph leaders organize their knowledge and expertise in machine-readable graph formats with a set of concepts—such as shopping, travel, or search—across categories. Take Airbnb's travel graph. It depicts an inventory of more than 7 million homes, tagged in terms of entities (cities, landmarks, events, and so on), attributes (such as customer reviews and hours of operation), and the relationships among them to yield ever-improving recommendations about not just the type of house to rent but also the best places for dinner or the best times to visit attractions. This ability to expand the product scope allows Airbnb to serve its customers better than traditional hotels, whose data is housed in departmental silos (reservations for the room booking, concierge for restaurant recommendations, spa for massage appointments, and so on). Similarly, Netflix continually improves how it represents and classifies movies and television shows across 75,000 microgenres (just as Spotify does with music and podcasts).

Google has been able to build something even more powerful. Its Knowledge Graph represents relationships between words and concepts in ways that help its algorithms understand context. This enables Google to respond to verbal queries such as: "Hey, Google, book two tickets to the Colosseum for next Wednesday and charge it to Google Pay." Because the underlying knowledge is represented as a graph, the algorithms understand what the user is asking; they know that the "Colosseum" is an attraction in Rome, that next Wednesday is May 25, that

Idea in Brief

OUT WITH THE OLD
Tracking static data about services and products, such as how many items are sold in a given time frame, no longer generates sufficient insight for a company to differentiate itself from its competition.

AN INFORMATION EDGE
Winners in the marketplace are using *datagraphs*—digital representations of real-time information captured about customers, products, purchases, events, and places, as well as the dynamic relationships and interrelationships among them—to personalize recommendations, update products, optimize advertising, and more.

THE ADVANTAGE
Companies that use datagraphs successfully learn at scale and speed, continually optimizing to deliver personalized value to every customer. They use datagraphs to enrich their product offerings, identifying patterns of preference so they can solve customers' problems effectively. And datagraph leaders win their customers' "moments of truth"—keeping customers engaged with their service rather than moving on.

A New View of Competitive Advantage

Datagraphs are redefining how companies win.

TRADITIONAL ADVANTAGES	ADVANTAGES FROM DATAGRAPHS
Scale advantage comes from physical assets	Scale advantage comes from product-in-use data
Scope expansion is based on product-market extensions	Scope expansion comes from datagraph and analytics competencies
Advantage comes from direct and indirect network effects	Advantage comes from data network effects along with direct and indirect network effects
Data enhances operational efficiency	Data provides real-time insights into customer behavior and needs
Data is stored as independent records in separate functional databases	Data is stored in integrated graph-based databases
Analytics are used to improve operations and marketing effectiveness	Analytics are used to build competitive differentiation
Firms design and deliver products and services	Firms solve customer problems with unique solutions derived from digital learning

"book" means to buy tickets, and that "charge" involves using a stored credit card (as opposed to other meanings of these words). And with each query and customer interaction, the Knowledge Graph is refined to reflect new relationships as meanings change.

Consider a search query by an avid mountaineer who has hiked Mount Adams and would like to hike Mount Fuji next. She may ask: "What should I do differently to prepare for Mount Fuji compared with Mount Adams?" Today, getting an answer requires multiple searches, but Google is working on a new model with more-complex knowledge linkages (with seamless translation across languages) to more effectively respond to such queries.

To compete with digital giants, ask yourself: Does knowledge about our products exist mostly as separate data sets, or are we developing machine-readable graphs to identify patterns of preference for our customers?

They win customers' moments of truth. In 2001, only 2% of Netflix's recommendations were chosen by its 456,000 users. By 2020, the percentage had increased to 80%, and Netflix had more than 200 million subscribers. Netflix uses its movie graph to win the "moment of truth": the 90-second-to-two-minute window in which a viewer decides to watch something on Netflix or go elsewhere. Netflix algorithmically customizes and updates its home screen to continuously deliver targeted recommendations for every subscriber. By 2015, Netflix had prevented more than $1 billion a year in canceled subscriptions thanks to its personalized recommendation engine.

To win its moments of truth, Facebook conducts A/B experiments across 3 billion users in near real time to personalize the social feeds of each user. Before Facebook displays a post, it sorts through an inventory of possibilities and narrows them down to about 500 that past behavior patterns suggest a user is likely to engage with. Then, Facebook's proprietary neural network scores the posts and ranks them before arranging them in a variety of media types, such as text, photos, sounds, and videos interspersed with ads.

Unlike Facebook, whose library of digital content can be instantaneously delivered to its customers worldwide (subject to legal restrictions), Uber's ability to satisfy a customer's need for transportation is based on the availability of vehicles at a precise time and at an exact location. Uber's moment of truth

Companies must use algorithms in ways that engender trust, and they must earn the right to gather and analyze data.

is the five minutes customers are willing to wait for a driver. The ride-sharing company tracks drivers and passengers who have the app open on their smartphones (it previously tracked users even when they weren't using the app, a controversial policy it was forced to change in 2017 after customer backlash) and uses that data to analyze likely demand patterns. Then it provides incentives for drivers to be available at selected locations. The company continually optimizes its routing algorithms to win customers at the moment of truth.

Although many companies claim to be customer-centric, few use datagraphs and algorithms the way these leaders do. Ask yourself: Are we using AI-powered algorithms to deliver customers an ever-more-refined product offering to make sure they engage with our product rather than move on?

Getting Started

The first thing businesses that wish to remain competitive against datagraph leaders must understand is that a successful strategy isn't solely dependent on having large volumes of information. It's about collecting relevant product-in-use data in real time to achieve data network effects and build advantage. When businesses observe more customer interactions with their products, they accumulate richer data; when they sell more products to a more-diverse group of users, they accumulate more-varied data that helps them further differentiate their offerings. Businesses that aren't using datagraphs or have yet to do so successfully must take the following steps to catch up:

1. Develop a datagraph strategy. To get started, pair executives that have industry knowledge with data scientists to conceptualize your datagraph, examine its future trajectory, and sketch out plausible business implications. Many companies that don't have the resources of an Amazon or a Netflix have already done this. For example, Stitch Fix was founded as a personalized fashion service in 2010 by a business school student; now, thanks in large part to its fashion graph, its market cap tops $1.6 billion.

Coursera shows how new entrants can use datagraphs to upend a market. Traditional universities offer "one size fits all" courses and certificates; in contrast, Coursera operates like a Netflix or Amazon for education. It offers a personalized online experience through stackable modules, which are consumable at different durations, locations, difficulty levels, and price points. It uses its proprietary Skills Graph to customize lifelong learning in ways that traditional universities have not been able to achieve.

Ask yourself how your data offers a unique advantage to your business. You may possess proprietary "data hooks" that allow you to observe at the point of use detailed information that is unavailable to others. Your advantage may come from superior data scope (the depth and richness of your data) and access to complementary data from partners. You may have faster data speed (data in motion compared with a competitor's episodic data, which is subject to batch processing). Consider how scale, scope, and speed can be increased through acquisitions (consider Microsoft's acquisitions of LinkedIn and Activision) or alliances (such as Google's partnership with Shopify).

2. Develop proprietary algorithms. It's no longer adequate to carry out different types of analysis independently. Datagraph leaders use proprietary algorithms to conduct descriptive analysis ("What happened?"), diagnostic analysis ("Why did it happen?"), predictive analysis ("What could happen?"), and prescriptive analysis ("What should happen?") in an overarching framework. You can evolve your datagraph infrastructure from the legacy architectures designed to analyze data at rest (batch processing, independent analysis) to analyze real-time data in motion. Be sure to benchmark your algorithms against others in your industry—and against others of its class. For example, if your success metric is the extent to which customers act on your recommendations, how does the performance of your recommendation engine stack up against those of leaders like Netflix, Spotify, and Amazon?

3. Engender trust. Being the custodian of customer data is a huge responsibility. Most customers regard computers, algorithms, and machine learning as complex black boxes, and many believe that their data is being used (even abused) to make digital companies rich and powerful. You must develop ways to use your algorithms to engender trust, and you must earn the right to gather, analyze, and deliver value through data. Explain what you're doing using language that consumers can understand.

Trust gets eroded when consumers feel that their data is being misused.

Facebook has become the poster child for this predicament. Recently, a whistleblower from the Facebook data science team directly accused the company of, among other things, using its data and algorithms to amplify inflammatory content to boost engagement on the site, despite having conducted proprietary internal research showing that doing so would be harmful to users and society. Facebook CEO Mark Zuckerberg has denied the claims: "The argument that we deliberately push content that makes people angry for profit is deeply illogical," he said. "We make money from ads, and advertisers consistently tell us they don't want their ads next to harmful or angry content." Whether Zuckerberg can repair the damage depends on how Facebook uses its algorithms and personal data moving forward and the transparency with which it communicates with users.

Every company must invest resources not only in the technical facets of algorithms but in explaining what they do in ways consumers understand and feel comfortable with. Customers increasingly expect to be informed about how digital products function and AI-supported services are delivered, and countries demand that companies tailor their data operations to local regulations. For example, in Germany, which has strict privacy regulations, Alibaba needs a different data strategy from the one it uses in China. And it must communicate to consumers in both countries in ways that promote trust.

4. Update the organization. Business leaders must allocate the resources necessary to upgrade the technology infrastructure required for datagraphs. They must recruit talent with breadth and depth in both data science and business. They must structure the data organization as the connective tissue that ties together all parts of the enterprise, recognizing that modern organizations must juggle two powerful, competing factions: those who believe in the supreme power of data and algorithms to solve problems and those who don't. This tension defines the operating culture of modern organizations: Consider how Netflix CEO Reed Hastings balances the analytical pull of Silicon Valley with the creative pull of Hollywood.

5. Monetize your datagraph. Datagraphs, when constructed to support and shape strategy, reveal that value lies not only in how products are designed and manufactured but also in how they solve specific problems for customers. Insights from datagraphs will help you choose the most appropriate monetization mechanisms and lay out clear pathways from data to business results. You can defend your current revenue and profits with compelling recommendations based on data network effects, just as Netflix uses real-time data to improve customer retention. You can also use your datagraph to develop more-thoughtful ways to expand your revenue and profit streams by going after new pockets of value, as Apple has done with its foray into credit cards, TV, and health care. And you can counterattack in markets where competitors have already mastered datagraphs, as Disney did with its successful entry into the streaming wars with Disney+.

Reshaping Advantage

We've all seen the signs in front of McDonald's announcing, "Over X Billion Served" and have watched the number rise over the years. But tracking how many burgers are sold every year is a relic of the past. Datagraph leaders care less about absolute numbers. Instead, they ask: Do we have data on where each consumer buys her burgers? At what time? What does she drink with it? What does she do before or after buying a burger? Who are our customers and what are their ages, income, location, preferences, lifestyles, and so on? How can we satisfy more of their needs so that they spend more dollars with us than with someone else, feel confident that they got value for their money, and keep coming back?

Datagraphs will reshape competition in every sector sooner than most expect. It's time for every company to move beyond using data to improve operational efficiency and recognize the competitive advantage of datagraphs. Senior leaders must invest in upgrading their data architecture to enable a real-time, comprehensive view of how consumers interact with their products and services. With this structure in place, leaders can develop unique ways to solve customer problems.

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ADVERTISEMENT

Why the Gender Pay Gap Hurts Business—And How You Can Help Close It

One of the most intractable and unjust imbalances of the American workforce is salary. Women earn only 82 cents for every dollar of men's income. And intersectionality—including race, color, and sexuality—exacerbates the pay inequity that oppresses people in the workplace.

The business case for pay equity is clear. Fairness heightens productivity and engagement, talent attraction and retention, and diversity and inclusivity. And given the labor shortage and the public expectation that organizations support human rights, your performance on any of these factors can make or break your business.

Yet the pay gap persists. Many organizations struggle to close it because of factors like complexity, a culture of silence, a lack of transparency, and an absence of leadership.

A clear majority of executives and employees consider pay equity a priority, but fewer than half of employees feel their organizations have achieved it, a recent Harvard Business Review Analytic Services survey showed. The pay gap is also a gap in perception: half of white male employees deem organizations successful on pay equity—but only 35% of Black/African-American women and Hispanic/Latinx women and men agree.

Strategies for Success

The pay equity imperative calls for all organizations to assess their policies and programs to support their workforce. Such strategies include getting executive leadership support; identifying groups that experience pay inequity; crafting a mindful plan; ensuring human resources can advocate for underrepresented employees in need; conducting workforce surveys and audits; building a culture of transparency; and using technology to ensure effective, equitable change.

Toward a Fairer Future

Organizations using UKG's workforce technology already support pay equity. For every employee paid through UKG software, the Close the Gap Initiative commits 18 cents to awareness and action for pay equity. That amounts to $3 million annually to:

- Provide philanthropic support to nonprofits focused on equity for women and other traditionally underrepresented groups: Grantmakers for Girls of Color, Lean In, Reboot Representation, and 9to5.
- Partner with experts on pay equity best practices.
- Collaborate with Harvard Business Review Analytic Services to study pay equity in America.

Start your pay equity journey with UKG.

> Providing equal opportunity for all people is at the heart of being a great workplace. To be truly supportive, employers must recognize a person's value and compensate them equitably based on skills, experience, and the work they perform, no matter their gender.

Brian K. Reaves, EVP & Chief Belonging, Diversity, and Equity Officer, UKG

CLOSE the GAP

UKG

Learn more about UKG's pay equity initiatives at:
ukg.com/close-the-gap

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The Ultimate Marketing Machine

Most marketing organizations are stuck in the last century. Here's how the best meet the challenges of the digital age.

→ by MARC DE SWAAN ARONS, FRANK VAN DEN DRIEST, and KEITH WEED

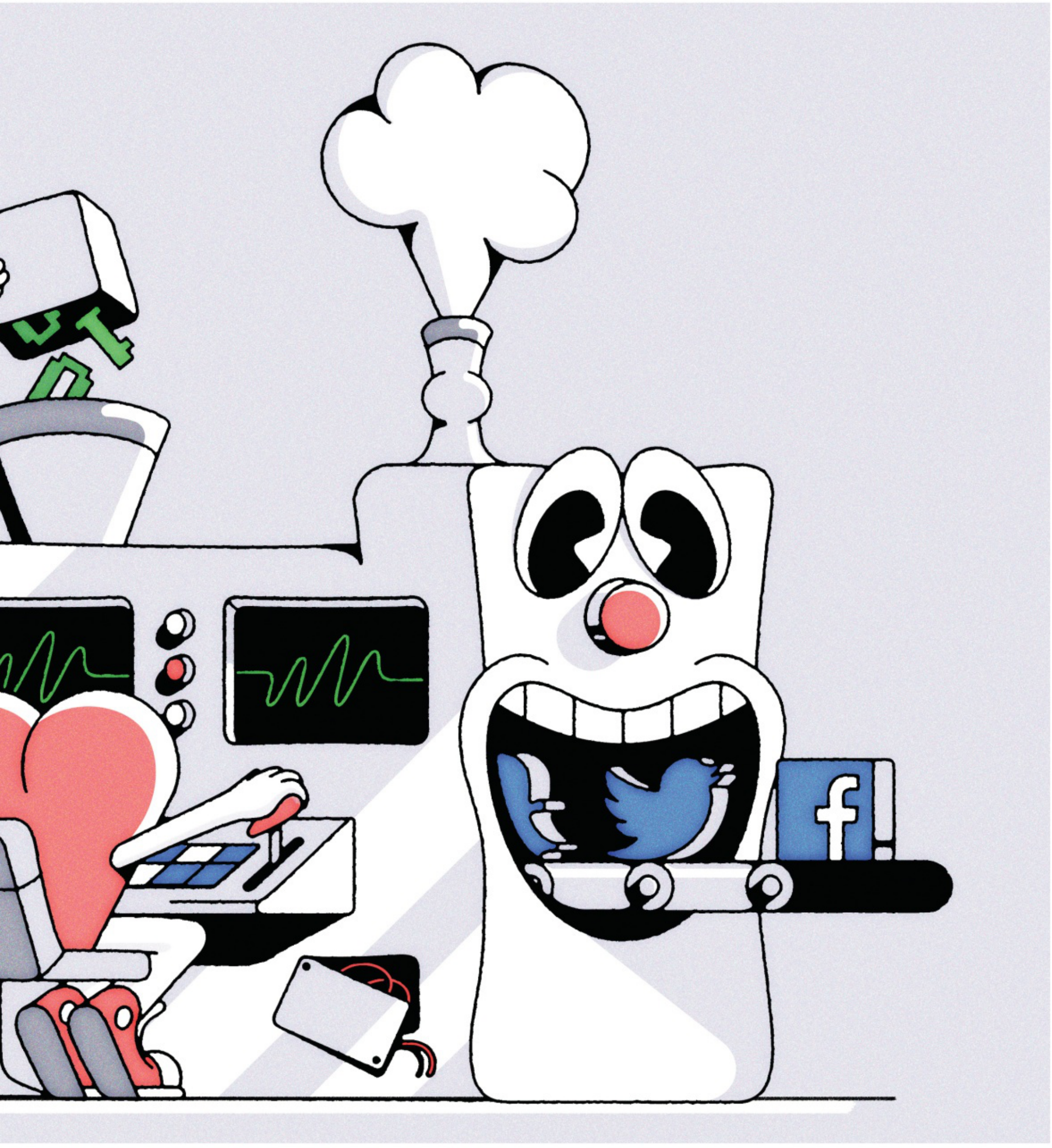
IN THE PAST decade, what marketers do to engage customers has changed almost beyond recognition. With the possible exception of information technology, we can't think of another discipline that has evolved so quickly. Tools and strategies that were cutting-edge just a few years ago are fast becoming obsolete, and new approaches are appearing every day. Yet in most companies the organizational structure of the marketing function hasn't changed since the practice of brand management emerged, more than 40 years ago. Hidebound hierarchies from another era are still commonplace.

Marketers understand that their organizations need an overhaul, and many chief marketing officers are tearing up their org charts. But in our research and our work with hundreds of global marketing organizations, we've found that those CMOs are struggling with how to draw the new chart. What does the ideal structure look like? Our answer is that this is the wrong question. A simple blueprint does not exist.

Marketing leaders instead must ask, "What values and goals guide our brand strategy, what capabilities drive marketing excellence, and what structures and ways of working will support them?" Structure must follow strategy—not the other way around.

Former McDonald's CMO Larry Light understood that principle when he became the chief brand officer of the InterContinental Hotels Group, where the marketing team was intent on reorganizing its operation. Light quickly focused the team on defining marketing's purpose, its goals, and a process for achieving them. Once those had been clarified, a rational reorganization could occur.

Illustration by **JIMMY SIMPSON**



To understand what separates the strategies and structures of superior marketing organizations from the rest, EffectiveBrands—in partnership with the Association of National Advertisers, the World Federation of Advertisers, Spencer Stuart, *Forbes,* MetrixLab, and Adobe—initiated Marketing2020, which to our knowledge is the most comprehensive marketing leadership study ever undertaken. Coauthor Keith Weed, the CMO of Unilever, is the chairman of the initiative's advisory board. To date the study has included in-depth qualitative interviews with more than 350 CEOs, CMOs, and agency heads, and over a dozen CMO roundtables in cities worldwide. We also conducted online quantitative surveys of 10,000-plus marketers from 92 countries. The surveys encompassed more than 80 questions focusing on marketers' data analytics capabilities, brand strategy, cross-functional and global interactions, and employee training.

We divided the survey respondents into two groups, overperformers and underperformers, on the basis of their companies' three-year revenue growth relative to their competitors'. We then compared those two groups' strategies, structures, and capabilities. Some of what we found should come as no surprise: Companies that are sophisticated in their use of data grow faster, for instance. Nevertheless, the research shed new light on the constellation of brand attributes required for superior marketing performance and on the nature of the organizations that achieve it. It's clear that "marketing" is no longer a discrete entity (and woe to the company whose marketing is still siloed) but now extends throughout the firm, tapping virtually every function. And while the titles, roles, and responsibilities of marketing leaders vary widely among companies and industries, the challenges they face—and what they must do to succeed—are deeply similar.

Winning Characteristics

The framework that follows describes the broad traits of high-performing organizations, as well as specific drivers of organizational effectiveness. Let's look first at the shared principles of high performers' marketing approaches.

Big data, deep insights. Marketers today are awash in customer data, and most are finding narrow ways to use that information—to, say, improve the targeting of messages. Knowing what an individual consumer is doing where and when is now table stakes. High performers in our study are distinguished by their ability to integrate data on what consumers are doing with knowledge of *why* they're doing it, which yields new insights into consumers' needs and how to best meet them. These marketers understand consumers' basic drives—such as the desire to achieve, to find a partner, and to nurture a child—motivations we call "universal human truths."

The Nike+ suite of personal fitness products and services, for instance, combines a deep understanding of what makes athletes tick with troves of data. Nike+ incorporates sensor technologies embedded in running shoes and wearable devices that connect with the web, apps for tablets and smartphones, training programs, and social networks. In addition to tracking running routes and times, Nike+ provides motivational feedback and links users to communities of friends, like-minded athletes, and even coaches. Users receive personalized coaching programs that monitor their progress. An aspiring first-time half-marathon runner, say, and a seasoned runner rebounding from an injury will receive very different coaching. People are rewarded for good performance, can post their accomplishments on social media, and can compare their performance with—and learn from—others in the Nike+ community.

Purposeful positioning. Top brands excel at delivering all three manifestations of brand purpose—functional benefits, or the job the customer buys the brand to do (think of the pick-me-up Starbucks coffee provides); emotional benefits, or how it satisfies a customer's emotional needs (drinking coffee is a social occasion); and societal benefits, such as sustainability (when coffee is sourced through fair trade). Consider the Unilever Sustainable Living Plan, which defines a set of guiding principles for sustainable growth that emphasize improving health, reducing environmental impact, and enhancing livelihoods. The plan lies at the heart of all Unilever's brand strategies, as well as its employee and operational strategies.

In addition to engaging customers and inspiring employees, a powerful and clear brand purpose improves alignment throughout the organization and ensures consistent messaging across touchpoints. AkzoNobel's Dulux, one of the world's leading paint brands, offers a case in point. In 2006, AkzoNobel was operating a heavily decentralized business structured around local markets, with each local business setting its own brand and business goals and developing its own marketing mix. Not surprisingly, the outcome was inconsistent brand positioning and results; Dulux soared in some markets and floundered in others. In 2008, Dulux's new global brand team pursued a sweeping program to under-

stand how people perceived the brand across markets, paint's purpose in their lives, and the human truths that inspired people to color their environments. From China, to India, to the UK, to Brazil, a consistent theme emerged: The colors around us powerfully influence how we feel. Dulux wasn't selling cans of paint; it was selling "tins of optimism." This new definition of Dulux's brand purpose led to a marketing campaign, "Let's Color." It enlists volunteers, which now include more than 80% of AkzoNobel employees, and donates paint (more than half a million liters so far) to revitalize run-down urban neighborhoods, from the favelas of Rio to the streets of Jodhpur. In addition to aligning the once-decentralized marketing organization, Dulux's purpose-driven approach has expanded its share in many markets.

Total experience. Companies are increasingly enhancing the value of their products by creating customer experiences. Some deepen the customer relationship by leveraging what they know about a given customer to personalize offerings. Others focus on the breadth of the relationship by adding touchpoints. Our research shows that high-performing brands do both—providing what we call "total experience." In fact, we believe that the most important marketing metric will soon change from "share of wallet" or "share of voice" to "share of experience."

McCormick, the spices and flavorings firm, emphasizes both depth and breadth in delivering on its promise to "push the art, science, and passion of flavor." It creates a consistent experience for consumers across numerous physical and digital touchpoints, such as product packaging, branded content like cookbooks, retail stores, and even an interactive service, FlavorPrint, that learns each customer's taste preferences and makes tailored recipe recommendations. FlavorPrint does for recipes what Netflix has done for movies; its algorithm distills each recipe into a unique flavor profile, which can be matched to a consumer's taste-preference profile. FlavorPrint can then generate customized e-mails, shopping lists, and recipes optimized for tablets and mobile devices.

Organizing for Growth

Marketing has become too important to be left just to the marketers in a company. We say this not to disparage marketers but to underscore how holistic marketing now is. To deliver a seamless experience, one informed by data and imbued with brand purpose, all employees in the company, from store clerks and phone center reps to IT specialists and the marketing team itself, must share a common vision.

Our research has identified five drivers of organizational effectiveness. The leaders of high-performing companies connect marketing to the business strategy and to the rest of the organization; inspire their organizations by engaging all levels with the brand purpose; focus their people on a few key priorities; organize agile, cross-functional teams; and build the internal capabilities needed for success.

Connecting. In our work with marketing organizations, we have seen case after case of dysfunctional teamwork, suboptimal collaboration, and lack of shared purpose and trust.

Despite cultural and geographic obstacles, our high-performing marketers avoid such breakdowns for the most part. Their leaders excel at linking their departments to general management and other functions. They create a tight relationship with the CEO, making certain that marketing goals support company goals; bridge organizational silos by integrating marketing and other disciplines; and ensure that global, regional, and local marketing teams work interdependently.

Marketing historically has marched to its own drummer, at best unevenly supporting strategy handed down from headquarters and, more commonly, pursuing brand or marketing goals (such as growing brand equity) that were not directly related to the overall business strategy. Today high-performing marketing leaders don't just align their department's activities with company strategy; they actively engage in creating it. From 2006 to 2013, our surveys show, marketing's influence on strategy development increased by 20 percentage points. And when marketing demonstrates that it is

Idea in Brief

THE CHALLENGE
How marketers engage with customers has profoundly changed. Yet in most companies the organization of the marketing function is stuck in the past. What strategies, structures, and capabilities should marketers adopt to excel?

THE RESEARCH
The Marketing2020 study surveyed more than 10,000 marketing executives globally about their organizations' data analytics capabilities, brand strategy, cross-functional and global interactions, employee engagement, and other factors and compared the responses of high-performing and low-performing organizations.

THE CONCLUSION
High performers excelled in their ability to leverage customer insight, communicate a societal purpose, and deliver a rich customer experience. They also demonstrated superior cross-functional collaboration, strategic focus, organizational agility, and training. New, fluid organizational structures facilitate these capabilities.

fighting for the same business objectives as its peers, trust and communication strengthen across all functions and, as we shall see, enable the collaboration required for high performance.

Another way companies foster connections is by putting marketing and other functions under a single leader. Motorola's Eduardo Conrado is the senior VP of both marketing and IT. A year after Antonio Lucio was appointed CMO of Visa, he was invited to also lead HR and tighten the alignment between the company's strategy and how employees were recruited, developed, retained, and rewarded. Coauthor Keith Weed leads communications and sustainability, as well as marketing, at Unilever. And Herschend Family Entertainment, owner of the Harlem Globetrotters and various theme parks, has recently expanded CMO Eric Lent's role to chief marketing and consumer technology officer.

Inspiring. Inspiration is one of the most underused drivers of effective marketing—and one of the most powerful. Our research shows that high-performing marketers are more likely to engage customers and employees with their brand purpose—and that employees in those organizations are more likely to express pride in the brand.

Inspiration strengthens commitment, of course, but when it's rooted in a respected brand purpose, all employees will be motivated by the same mission. This enhances collaboration and, as more and more employees come into contact with customers, also helps ensure consistent customer experiences. The payoff is that everyone in the company becomes a de facto member of the marketing team.

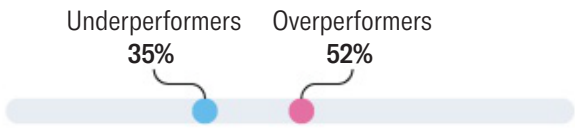
The key to inspiring the organization is to do internally what marketing does best externally: create irresistible messages and programs that get everyone on board. At Dulux, that involved handing paint and brushes to thousands of employees and setting them loose on neighborhoods around the world. Unilever's leadership conducts a quarterly live broadcast with most of the company's 6,500 marketers to celebrate best brand practices and introduce new tools. In addition, Unilever holds a series of globally coordinated and locally delivered internal and external communications events, called Big Moments, to engage employees and opinion leaders companywide directly with the broader purpose of making sustainable living commonplace. Research shows this has led to a significant increase in employee commitment. Nike has a marketing staffer whose sole job is to tell the original Nike story to all new employees.

Inspiration is so important that many companies, Unilever among them, have begun measuring employees' brand engagement as a key performance indicator. Google does this by assessing employees' "Googliness" in performance appraisals to determine how fully people embrace the company's culture and purpose. And Zappos famously offers new hires $3,000 to leave after four weeks, effectively cutting loose anyone who is not inspired by the company's obsessive customer focus.

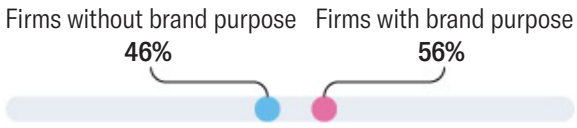
Focusing. When we asked eight global marketing executives in one organization to list their top five marketing objectives, only two goals made it onto everyone's list. The remainder was a motley assortment of personal or local

Highlights from the Survey

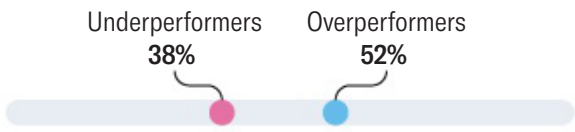
Use of Data Distinguishes the Leading Brands
% of respondents who said that their organization leveraged all data and analytics to improve marketing effectiveness



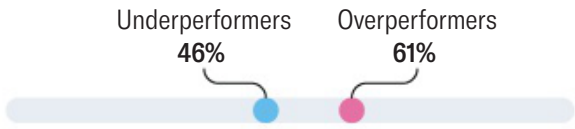
Purpose-Based Positioning Boosts Sales
% of respondents who said that their organization's revenue growth was higher than competitors'



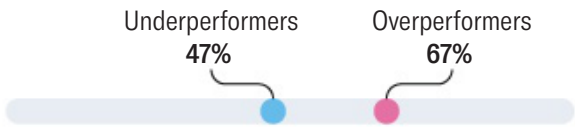
Connecting to Corporate Strategy
% of respondents who said that in their organization marketing is regarded as a strategic partner for business growth



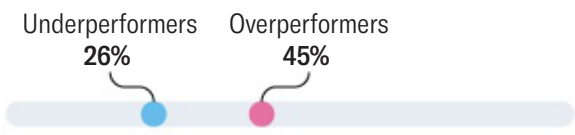
Inspiring Workers to Get Results
% of respondents who said their company ensures that all employees are fully engaged with the brand purpose



Focusing on the Right Metrics
% of respondents who said that their brand's key performance indicators are clearly linked to overall business performance



Building Needed Capabilities
% of respondents who said that their organization's training program was tailored to the specific needs of their business



Coca-Cola, Unilever, and Shiseido have set up dedicated marketing academies to create a single marketing language and approach.

objectives. Such misalignment, our data show, increases the farther teams are from an organization's center of power. With marketing activities ever more dispersed across global companies, that risk must be carefully managed.

By a wide margin, respondents in overperforming companies agreed with the statements "Local marketing understands the global strategy" and "Global marketing understands the local marketing reality." Winning companies were more likely to measure brands' success against key performance indicators such as revenue growth and profit and to tie incentives at the local level directly to those KPIs. Ironically, almost all companies were meticulous in planning and executing consumer communication campaigns but failed to devote the same care to internal communications about strategy. That's a dangerous oversight.

Marc Schroeder, the global marketing head for PepsiCo's Quaker brand, understood the need for internal cohesiveness when he led a cross-regional "marketing council" to develop and communicate the brand's first global growth strategy. The council defined a purposeful positioning, nailed down the brand's global objectives, set a prioritized growth agenda, created clear lines of accountability and incentives, and adopted a performance dashboard that tracked industry measures such as market share and revenue growth. The council communicated the strategy through regional and local team meetings, including those with agencies and retail customers worldwide, and hosted a first-ever global brand stewardship event to educate colleagues. As a result of those efforts, all Quaker marketing plans are now explicitly linked to one overall strategy.

Organizing for agility. Our research consistently shows that organizational structure, roles, and processes are among the toughest leadership challenges—and that the need for clarity about them is consistently underestimated or even ignored.

We have helped design dozens of marketing organizations. Typically we enter the scene after a traditional business consultancy has done preliminary strategy, cost, and head-count analyses, and our role is to work with the CMO to create and implement a new structure, operating model, and capability-building program. Though we believe there is no ideal organizational blueprint, our experience does suggest a set of operational and design principles that any organization can apply.

Today marketing organizations must leverage global scale but also be nimble, able to plan and execute in a matter of weeks or a few months—and, increasingly, instantaneously. Oreo famously took to Twitter during the blackout at the 2013 Super Bowl, reminding consumers, "You can still dunk in the dark," making the brand a trending topic during one of the world's biggest sporting events. That the tweet was designed and approved in minutes was no accident; Oreo deliberately organized and empowered its marketing team for the occasion, bringing agency and brand teams together in a "mission control" room and authorizing them to engage with their audience in real time.

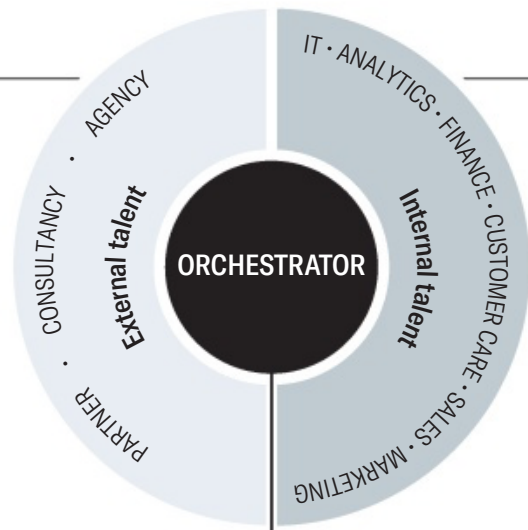
Complex matrixed organizational structures—like those captured in traditional, rigid "Christmas tree" org charts—are giving way to networked organizations characterized by flexible roles, fluid responsibilities, and more-relaxed sign-off processes designed for speed. The new structures allow leaders to tap talent as needed from across the organization and assemble teams for specific, often short-term, marketing initiatives. The teams may form, execute, and disband in a matter of weeks or months, depending on the task.

→ ***New marketing roles.*** As companies expand internationally, they inevitably reorganize to better balance the benefits of global scale with the need for local relevance. Our research shows that, as a result, the vast majority of brands are led much more centrally today than they were a few years ago. Companies are removing middle, often regional, layers and creating specialized "centers of excellence" that guide strategy and share best practices while drawing on needed resources wherever, and at whatever level, they exist in the organization. As companies pursue this approach, roles and processes need to be adapted.

Marketing organizations traditionally have been populated by generalists, but particularly with the rise of social and digital marketing, a profusion of new specialist roles—such as digital privacy analysts and native-content editors—are emerging. We have found it useful to categorize marketing roles not by title (as the variety seems infinite) but as belonging to three broad types: "think" marketers, who apply analytic capabilities to tasks like data mining, media-mix modeling, and ROI optimization; "do" marketers, who develop content and design and lead production; and "feel"

The Orchestrator Model

Drawing from a broad pool
CMOs and other marketing leaders such as chief experience officers and global brand leaders increasingly operate as orchestrators, tapping talent from both inside and outside the company to staff short-term task forces for specific initiatives.



Creating teams with three key types of capabilities
The rise of social and digital media has changed the makeup of marketing teams, which were traditionally staffed by generalists. Today effective teams bring together people with three kinds of focus: "think," "feel," and "do."

"THINK"
Focused on data and analytics

- Architecture and modeling director
- Digital privacy analyst
- Market data analyst
- Senior data architect
- Senior data modeler
- Web analyst

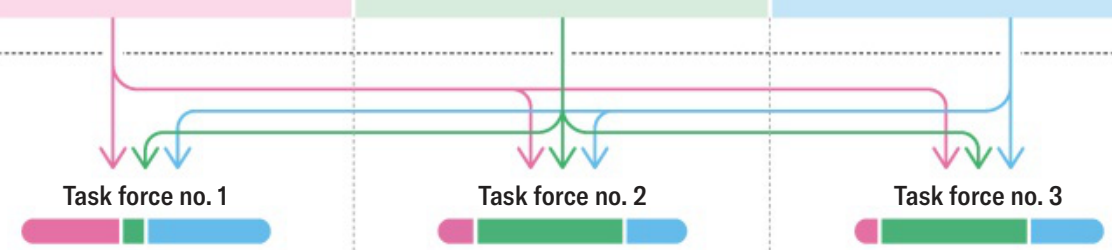
"FEEL"
Focused on consumer engagement

- Customer service representative
- Member engagement coordinator
- Online community manager
- PR executive
- Social media community manager
- Usability specialist

"DO"
Focused on content and production

- Concept creator
- Designer
- Digital studio producer
- Marketing content manager
- Senior digital content strategist
- Web design production specialist

Tailoring the team
The proportion of each type of capability on the team varies with its job.



How Liberty Global applies the model
To improve customers' experience, the cable service provider Liberty Global set up task forces focused on individual touchpoints. Here's what some of the teams looked like and the results they got.

	Task force no. 1	Task force no. 2	Task force no. 3
TOUCHPOINT	Gets set-top box	Receives first bill	Sees new customer offer
KEY PLAYERS	**Leader:** Customer care executive **Functions involved:** IT, network, logistics, customer care, marketing	**Leader:** Marketing executive **Functions involved:** Marketing, IT, customer care, billing	**Leader:** Marketing executive **Functions involved:** R&D, IT, network, billing, marketing, customer care
TEAM MIX	Thinkers 40% · Feelers 10% · Doers 50%	Thinkers 15% · Feelers 60% · Doers 25%	Thinkers 10% · Feelers 60% · Doers 30%
DURATION	One year	6 months	3 months
RESULTS	**Problem:** Complex set-top box required too many on-site visits to set up **Solution:** Developing remote installation guides and allowing remote installations by customer care agents	**Problem:** Customers found bills frustrating and confusing **Solution:** Developing personalized video messages to explain the first bill	**Problem:** Customer defections peaked when attractive offer were made to new customers **Solution:** Extending the same offers to existing customers, thus simplifying offerings

marketers, who focus on consumer interaction and engagement in roles from customer service to social media and online communities.

→ ***The networked organization.*** A broad array of skills and organizational tiers and functions are represented within each category. CMOs and other marketing executives such as chief experience officers and global brand managers increasingly operate as the orchestrators, assembling cross-functional teams from these three classes of talent to tackle initiatives. Orchestrators brief the teams, ensure that they have the capabilities and resources they need, and oversee performance tracking. To populate a team, the orchestrator and team leader draw from marketing and other functions as well as from outside agencies and consulting firms, balancing the mix of think, do, and feel capabilities in accordance with the team's mission. (See the exhibit "The Orchestrator Model.")

Companies are using this model to create task forces for a range of marketing programs, from integrating online and physical retail experiences to introducing new products. When Unilever launched Project Sunlight—a consumer-engagement program connected with its sustainable-living initiative—the team drew talent from seven expertise areas. The international cable company Liberty Global uses task forces to optimize the customer experience at key engagement points—such as when customers receive a bill. These teams are led by managers from a variety of marketing and nonmarketing functions, have different durations, and draw from each of the three talent pools in different measure.

The task-force model is both agile and disciplined. It requires a culture in which central leadership is confident that local teams understand the strategy and will collaborate to execute it. This works well only when everyone in the organization is inspired by the brand purpose and is clear about the goals. Google, Nike, Red Bull, and Amazon all embrace this philosophy. Amazon's Jeff Bezos captured the ethos when he said at a shareholders' meeting, "We are stubborn on vision. We are flexible on details."

Building capabilities. As we have shown, the most effective marketers lead by connecting, inspiring, focusing, and organizing for agility. But none of those activities can be fully accomplished, or sustained, without the continual building of capabilities. Our research shows pronounced differences in training between high- and low-performing companies, in terms of both quantity and quality.

At a minimum the marketing staff needs expertise in traditional marketing and communications functions—market research, competitive intelligence, media planning, and so forth. But we've seen that sometimes even those basic capabilities are lacking. Courses to onboard new staff and teach targeted skills are just the price of entry. The best marketing organizations, including those at Coca-Cola, Unilever, and the Japanese beauty company Shiseido, have invested in dedicated internal marketing academies to create a single marketing language and way of doing marketing.

Senior managers across the company can benefit from programs for sharing expertise on consumer habits, competitor strategy, and retail dynamics. Virgin, Starbucks, and other corporations have created intensive "immersion" programs for this purpose. Executives at the director level can profit from advanced courses that focus on strategic considerations such as portfolio management and partnering. We find that senior leaders often gain a lot from digital and social media training, as they're frequently less well versed in those areas than their junior colleagues are. Appreciating this, companies including Unilever and Diageo have taken their senior leaders to Facebook for training. We've collaborated with partners at Google, MSN, and AOL to develop similar programs, including "reverse mentoring," which pairs very senior managers with younger staffers. Even the CMO can benefit from continued, targeted training. Visa's Antonio Lucio, for instance, hired a digital native to teach him about social media and monitor his progress.

Underperforming marketers, on the other hand, underinvest in training. Their employees receive just over half a day of training a year, on average, while overperformers give people nearly two full days of tailored, practical training by external experts.

AT FIRST BLUSH, the Marketing2020 study reveals what you might expect: Marketers must leverage customer insight, imbue their brands with a brand purpose, and deliver a rich customer experience. They must connect, inspire, focus, organize, and build, as detailed here. The finding that's striking—and should serve as both a warning and a call to arms—is that most organizations haven't been able to put all those pieces together. Our data show that only half of even high-performing organizations excel on some of these capabilities. But that shouldn't be discouraging; rather, it illuminates where there's work to do. Regardless of how marketing delivers its messages in the future, the fundamental human motivations that marketers must satisfy won't change. The challenge now is to create organizations that can truly speak to those needs.

HBR Reprint R1407C

Marc de Swaan Arons *and* ***Frank van den Driest*** *are the founders of the Institute for Real Growth and the authors of* The Global Brand CEO *(Airstream New York, 2010).* ***Keith Weed*** *was the chief marketing and communication officer of Unilever and currently serves as a nonexecutive director at WPP and Sainsbury.*

ORIGINALLY PUBLISHED MAY 2015

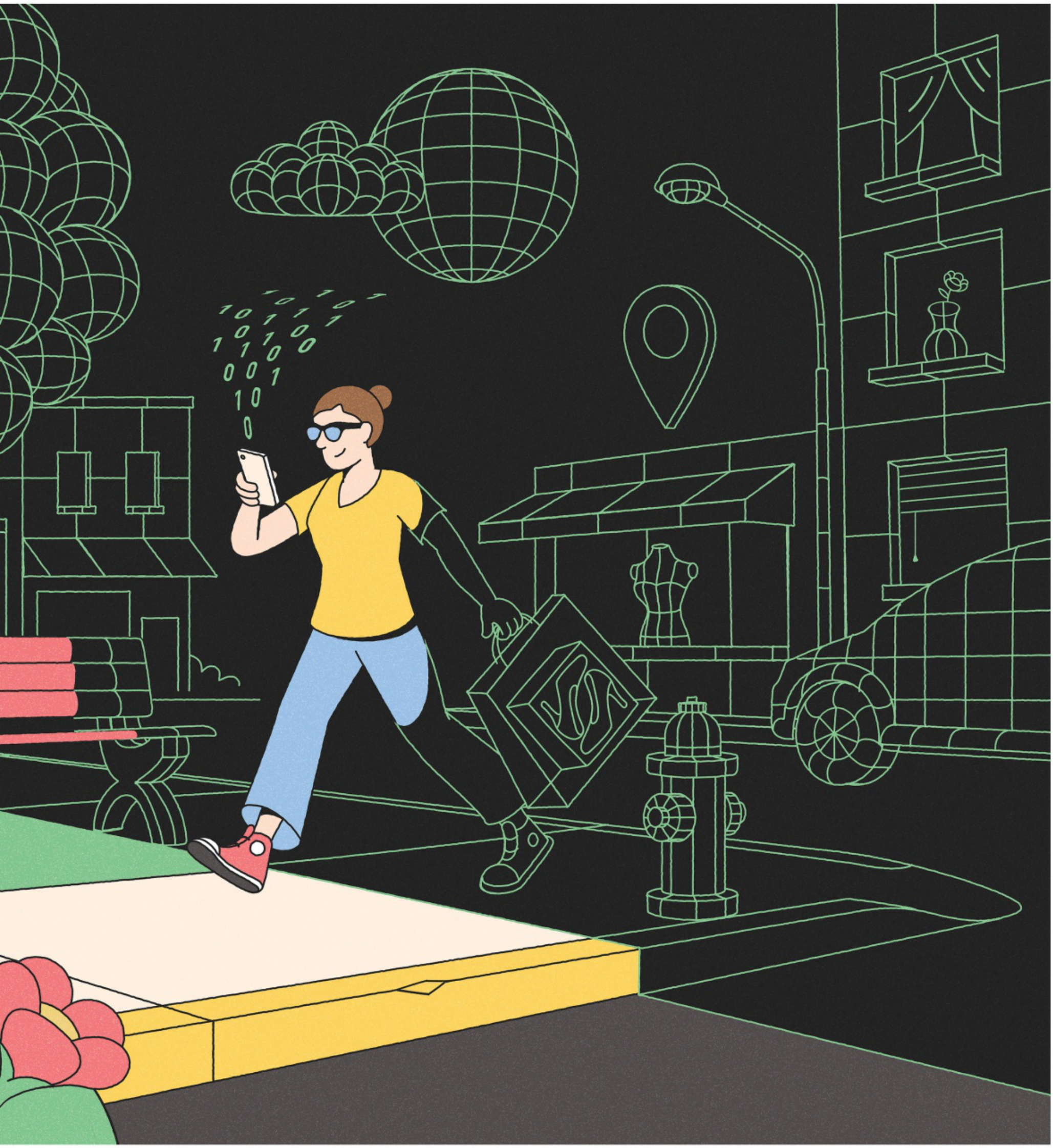
Customer Data: Designing for Transparency and Trust

→ by TIMOTHY MOREY, THEODORE "THEO" FORBATH, and ALLISON SCHOOP

WITH THE EXPLOSION of digital technologies, companies are sweeping up vast quantities of data about consumers' activities, both online and off. Feeding this trend are new smart, connected products—from fitness trackers to home systems—that gather and transmit detailed information. Though some companies are open about their data practices, most prefer to keep consumers in the dark, choose control over sharing, and ask for forgiveness rather than permission. It's also not unusual for companies to quietly collect personal data they have no immediate use for, reasoning that it might be valuable someday.

As current and former executives at frog, a firm that helps clients create products and services that leverage users' personal data, we believe this shrouded approach to data gathering is shortsighted. Having free use of customer data may confer near-term advantages. But our research shows that consumers are aware that they're under surveillance—even though they may be poorly informed about the

Illustration by **JIMMY SIMPSON**



specific types of data collected about them—and are deeply anxious about how their personal information may be used.

In a future in which customer data will be a growing source of competitive advantage, gaining consumers' confidence will be key. Companies that are transparent about the information they gather, give customers control of their personal data, and offer fair value in return for it will be trusted and will earn ongoing and even expanded access. Those that conceal how they use personal data and fail to provide value for it stand to lose customers' goodwill—and their business.

The Expanding Scope of Data

The internet's first personal data collectors were websites and applications. By tracking users' activities online, marketers could deliver targeted advertising and content. More recently, intelligent technology in physical products has allowed companies in many industries to collect new types of information, including users' locations and behavior. The personalization this data allows, such as constant adaptation to users' preferences, has become central to the product experience. (Google's Nest thermostat, for example, autonomously adjusts heating and cooling as it learns homeowners' habits.)

The rich new streams of data have also made it possible to tackle complex challenges in fields such as health care, environmental protection, and urban planning. Take Medtronic's digital blood-glucose meter. It wirelessly connects an implanted sensor to a device that alerts patients and health care providers that blood-glucose levels are nearing troubling thresholds, allowing preemptive treatments. And the car service Uber has recently agreed to share ride-pattern data with Boston officials so that the city can improve transportation planning and prioritize road maintenance. These and countless other applications are increasing the power—and value—of personal data.

Of course, this flood of data presents enormous opportunities for abuse. Large-scale security breaches, such as the recent theft of the credit card information of 56 million Home Depot customers, expose consumers' vulnerability to malicious agents. But revelations about companies' covert activities also make consumers nervous. Target famously aroused alarm when it was revealed that the retailer used data mining to identify shoppers who were likely to be pregnant—in some cases before they'd told anyone.

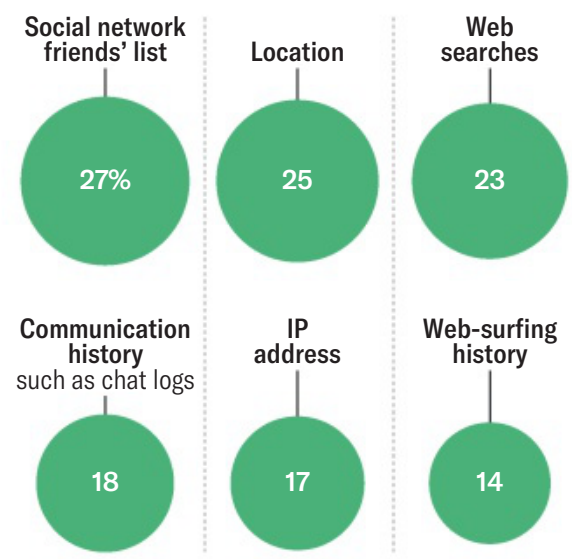
At the same time, consumers appreciate that data sharing can lead to products and services that make their lives easier and more entertaining, educate them, and save them money. Neither companies nor their customers want to turn back the clock on these technologies—and indeed the development and adoption of products that leverage personal data continue to soar. The consultancy Gartner estimates that nearly 5 billion connected "things" will be in use in 2015—up 30% from 2014—and that the number will quintuple by 2020.

Resolving this tension will require companies and policy makers to move the data privacy discussion beyond advertising use and the simplistic notion that aggressive data collection is bad. We believe the answer is more nuanced guidance—specifically, guidelines that align the interests of companies and their customers, and ensure that both parties benefit from personal data collection.

In the Dark About Data

While most people are broadly aware that companies collect data on them, they're surprisingly uniformed about the specific types of data they give up when they go online.

Percentage of people who realize that they're sharing their:



Consumer Awareness and Expectations

To help companies understand consumers' attitudes about data, in 2014 we surveyed 900 people in five countries—the United States, the United Kingdom,

Only 25% of people knew that their data footprints included information on their location, and just 14% understood that they were sharing their web-surfing history too.

Germany, China, and India—whose demographic mix represented the general online population. We looked at their awareness of how their data was collected and used, how they valued different types of data, their feelings about privacy, and what they expected in return for their data.

To find out whether consumers grasped what data they shared, we asked, "To the best of your knowledge, what personal information have you put online yourself, either directly or indirectly, by your use of online services?" While awareness varied by country—Indians are the most cognizant of their data trail and Germans the least—overall the survey revealed an astonishingly low recognition of the specific types of information tracked online. On average, only 25% of people knew that their data footprints included information on their location, and just 14% understood that they were sharing their web-surfing history too. (See the exhibit "In the Dark About Data.")

It's not as if consumers don't realize that data about them is being captured, however; 97% of the people surveyed expressed concern that businesses and the government might misuse their data. Identity theft was a top concern (cited by 84% of Chinese respondents at one end of the spectrum and 49% of Indians at the other). Privacy issues also ranked high; 80% of Germans and 72% of Americans are reluctant to share information with businesses because they "just want to maintain [their] privacy." So consumers clearly worry about their personal data—even if they don't know exactly what they're revealing.

To see how much consumers valued their data, we did conjoint analysis to determine what amount survey participants would be willing to pay to protect different types of information. (We used purchasing parity rather than exchange rates to convert all amounts to U.S. dollars.) Though the value assigned varied widely among individuals, we are able to determine, in effect, a median, by country, for each data type.

The responses revealed significant differences from country to country and from one type of data to another. (See the exhibit "Putting a Price on Data.") Germans, for instance, place the most value on their personal data, and Chinese and Indians the least, with British and American respondents falling in the middle. Government identification, health, and credit card information tended to be the most highly valued across countries, and location and demographic information among the least.

We don't believe this spectrum represents a "maturity model," in which attitudes in a country predictably shift in a given direction over time (say, from less privacy conscious to more). Rather, our findings reflect fundamental dissimilarities among cultures. The cultures of India and China, for example, are considered more hierarchical and collectivist, while Germany, the United States, and the United Kingdom are more individualistic, which may account for their citizens' stronger feelings about personal information.

The Need to Deliver Value

If companies understand how much data is worth to consumers, they can

Idea in Brief

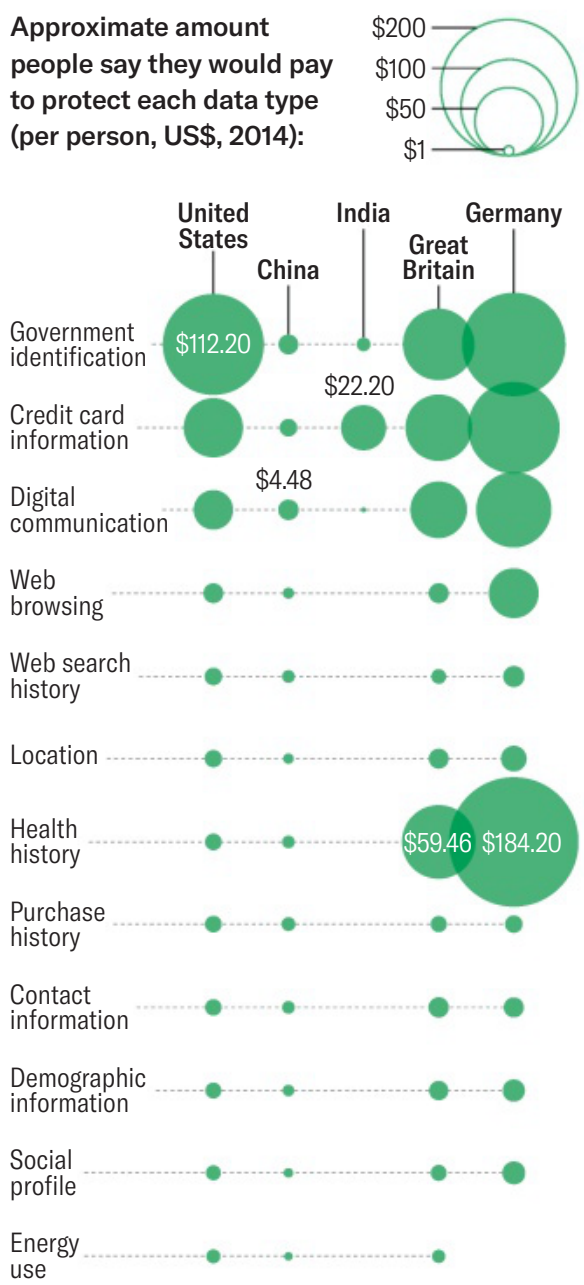
THE PROBLEM
Though consumers worry about how their personal data is gathered and used, they're surprisingly ignorant of what data they reveal when they're online, and most companies opt not to enlighten them. This dynamic erodes trust in firms and customers' willingness to share information.

THE SOLUTION
Companies need to design products and services with transparency and data privacy in mind. They must provide customers with appropriate value in exchange for data, educate them about how it is collected, and allow them to have control over it.

BEST PRACTICE
Disney devised electronic wristbands that give park visitors access to attractions and hotel rooms and allow them to charge food. Disney uses the bands to collect data on customers but clearly spells out its practices and privacy policies. The trade-offs are transparent to the customers, who find the convenience and other benefits the bands offer worthwhile.

Putting a Price on Data

Surveys of consumers in the United States, China, India, Great Britain, and Germany reveal that they value some types of information much more highly than others.



offer commensurate value in return for it. Making the exchange transparent will be increasingly important in building trust.

A lot depends on the type of data and how the firm is going to use it. Our analysis looked at three categories: (1) *self-reported data,* or information people volunteer about themselves, such as their email addresses, work and educational history, and age and gender; (2) *digital exhaust,* such as location data and browsing history, which is created when using mobile devices, web services, or other connected technologies; and (3) *profiling data,* or personal profiles used to make predictions about individuals' interests and behaviors, which are derived by combining self-reported, digital exhaust, and other data. Our research shows that people value self-reported data the least, digital exhaust more, and profiling data the most.

We also examined three categories of data use: (1) *making a product or service better,* for example, by allowing a map application to recommend a route based on a user's location; (2) *facilitating targeted marketing or advertising,* such as ads based on a user's browsing history; and (3) *generating revenues through resale*, by, say, selling credit card purchase data to third parties.

Our surveys reveal that when data is used to improve a product or service, consumers generally feel the enhancement itself is a fair trade for their data. But consumers expect more value in return for data used to target marketing, and the most value for data that will be sold to third parties. In other words, the value consumers place on their data rises as its sensitivity and breadth increase from basic information that is voluntarily shared to detailed information about the consumer that the firm derives through analytics, and as its uses go from principally benefiting the consumer (in the form of product improvements) to principally benefiting the firm (in the form of revenues from selling data). (See the exhibit "Swapping Value for Data.")

Let's look now at how some companies manage this trade-off.

Samsung's Galaxy V smartphone uses digital exhaust to automatically add the contacts users call most to a favorites list. Most customers value the convenience enough to opt in to the feature—effectively agreeing to swap data for enhanced performance.

Google's predictive application Google Now harnesses profiling data to create an automated virtual assistant for consumers. By sifting through users' email, location, calendar, and other data, Google Now can, say, notify users when they need to leave the office to get across town for a meeting and provide a map for their commute. The app depends on more-valuable types of personal data but improves performance enough that many users willingly share it. Our global survey of consumers' attitudes toward predictive applications finds that about two-thirds of people are willing (and in some cases eager) to share data in exchange for their benefits.

Disney likewise uses profiling data gathered by its MagicBand bracelet to enhance customers' theme park and hotel experiences and create targeted marketing. By holding the MagicBand

The more trusted a brand is, the more willing consumers are to share their data.

up to sensors around Disney facilities, wearers can access parks, check in at reserved attractions, unlock their hotel doors, and charge food and merchandise. Users hand over a lot of data, but they get convenience and a sense of privileged access in return, making the trade-off worthwhile. Consumers know exactly what they're signing on for, because Disney clearly spells out its data collection policies in its online MagicBand registration process, highlighting links to FAQs and other information about privacy and security.

Firms that sell personal information to third parties, however, have a particularly high bar to clear, because consumers expect the most value for such use of their data. The personal finance website Mint makes this elegant exchange: If a customer uses a credit card abroad and incurs foreign transaction fees, Mint flags the fees and refers the customer to a card that doesn't charge them. Mint receives a commission for the referral from the new-card issuer, and the customer avoids future fees. Mint and its customers both collect value from the deal.

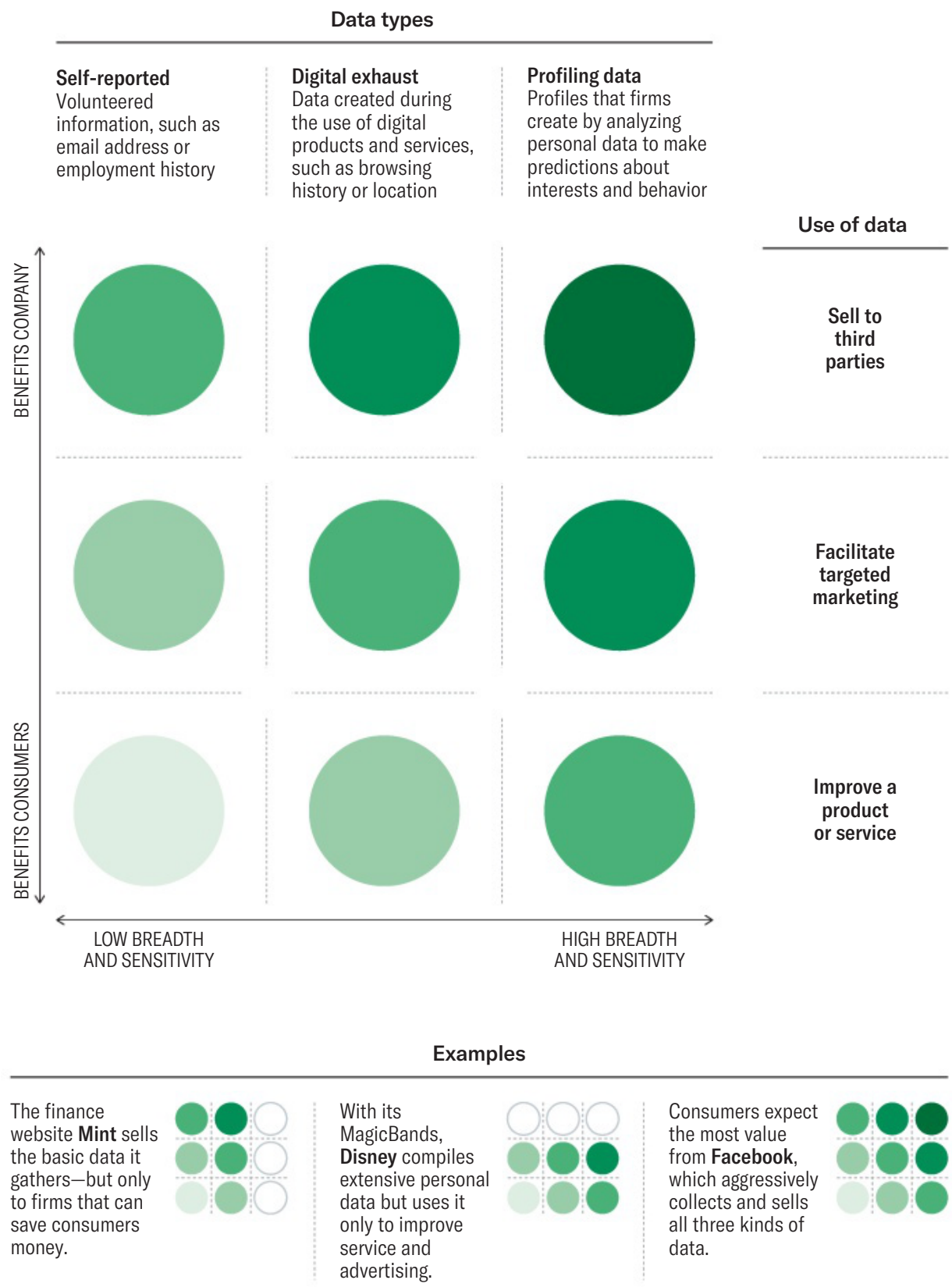
Trust and Transparency

Firms may earn access to consumers' data by offering value in return, but trust is an essential facilitator, our research shows. The more trusted a brand is, the more willing consumers are to share their data.

Numerous studies have found that transparency about the use and protection of consumers' data reinforces trust. To assess this effect ourselves, we surveyed consumers about 46

Swapping Value for Data

The value people put on data rises as its breadth and sensitivity increase and its use shifts benefits toward companies. And the more people value data, the more they expect companies to provide in return for it.



Any firm that thinks it's sufficient to simply provide disclosures in an end-user licensing agreement or present the terms and conditions of data use at sign-up is missing the point.

Data Laws Are Growing Fiercer

In a landmark case in September 2014, Germany ordered Google to stop violating its Federal Telemedia Act and Federal Data Protection Act. Under fire was Google's practice of compiling individual user data from its various services into detailed user profiles without users' consent.

Google was already facing fines from six other European countries for breaking the European Union's rules on privacy, but Germany's decision to force the company to change its practices to comply with the country's particular data protection laws set a new precedent. Among the list of required measures was a directive that Google meet Germany's stringent privacy options, in particular, providing a "right to forget" service through which people could remove any personal information they did not want online. This marked a new era for global web-based businesses.

As the *New York Times* has reported, many countries now default to Europe's data protection rules, adopting passages from the EU's strict regulations almost word for word. At the same time, they add regional legal interpretations. Brazil requires that tech companies get direct permission from users before sharing their data with online advertisers and marketers; South Africa forbids the transmission of people's personal data to countries that don't replicate its privacy laws; and South Korea grants individuals the right to access at any time the online information that companies hold about them. The United States is exceptional in that its personal data laws are not clearly defined and not enforced by any independent governing body except in the case of data related to health care or minors. However, as Google's experiences show, U.S.-based companies that operate internationally may be forced to comply with more-stringent data laws elsewhere.

companies representing seven categories of business around the world. We asked them to rate the firms on the following scale: *completely trustworthy* (respondents would freely share sensitive personal data with a firm because they trust the firm not to misuse it); *trustworthy* (they would "not mind" exchanging sensitive data for a desired service); *untrustworthy* (they would provide sensitive data only if required to do so in exchange for an essential service); and *completely untrustworthy* (they would never share sensitive data with the firm).

After primary care doctors, new finance firms such as PayPal and China's Alipay received the highest ratings on this scale, followed by e-commerce companies, consumer electronics makers, banks and insurance companies, and telecommunications carriers. Next came internet leaders (such as Google and Yahoo) and the government. Ranked below these organizations were retailers and entertainment companies, with social networks like Facebook coming in last. (See the exhibit "Do They Trust You with Their Data?")

A firm that is considered untrustworthy will find it difficult or impossible to collect certain types of data, regardless of the value offered in exchange. Highly trusted firms, on the other hand, may be able to collect it simply by asking, because customers are satisfied with past benefits received and confident the company will guard their data. In practical terms, this means that if two firms offer the same value in exchange for certain data, the firm with the higher trust will find customers more willing to share. For example, if Amazon and Facebook both wanted to launch a mobile wallet service, Amazon, which received good ratings in our survey, would meet with more customer acceptance than Facebook, which had low ratings. In this equation, trust could be an important competitive differentiator for Amazon.

Approaches That Build Trust

Many have argued that the extensive data collection today's business models rely on is fraught with security, financial, and brand risks. MIT's Sandy Pentland and others have proposed principles and practices that would give consumers a clear view of their data and control over its use, reducing firms' risks in the process. (See "With Big Data Comes Big Responsibility," HBR, November 2014.)

We agree that these business models are perilous and that risk reduction is essential. And we believe reasoned

policies governing data use are important. But firms must also take the lead in educating consumers about their personal data. Any firm that thinks it's sufficient to simply provide disclosures in an end-user licensing agreement or present the terms and conditions of data use at sign-up is missing the point. Such moves may address regulatory requirements, but they do little if anything to help consumers.

Consider the belated trust-building efforts under way at Facebook. The firm has been accused of riding roughshod over user privacy in the past, launching services that pushed the boundaries on personal data use and retreating only in the face of public backlash or the threat of litigation. Facebook Beacon, which exposed users' web activities without their permission or knowledge, for example, was pulled only after a barrage of public criticism.

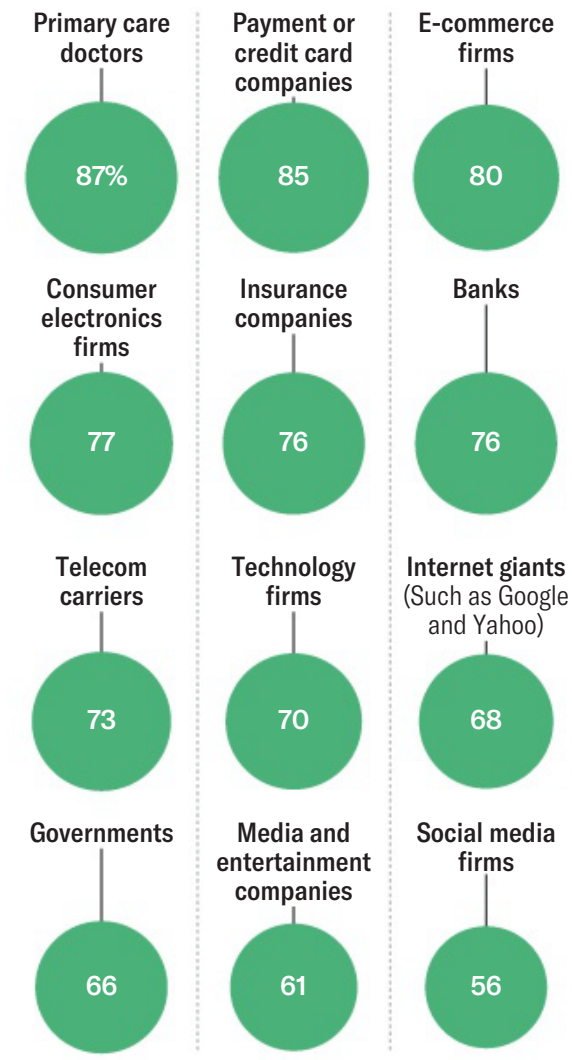
More recently, however, Facebook has increased its focus on safeguarding privacy, educating users, and giving them control. It grasps that trust is no longer just "nice to have." Commenting in a *Wired* interview on plans to improve Facebook Login, which allows users to log into third-party apps with their Facebook credentials, CEO Mark Zuckerberg explained that "to get to the next level and become more ubiquitous, [Facebook Login] needs to be trusted even more. We're a bigger company now and people have more questions. We need to give people more control over their information so that everyone feels comfortable using these products." In January 2015 Facebook launched Privacy Basics, an easy-to-understand site that explains what others see about a user and how people can customize and manage others' activities on their pages.

Like Facebook, Apple has had its share of data privacy and security challenges—most recently when celebrity iPhoto accounts were hacked—and is taking those concerns ever more seriously. Particularly as Apple forays into mobile payments and watch-based fitness monitoring, consumer trust in its data handling will be paramount. CEO Tim Cook clearly understands this. Launching a "bid to be conspicuously transparent," as the *Telegraph* put it, Apple recently introduced a new section on its website devoted to data security and privacy. At the top is a message from Cook. "At Apple, your trust means everything to us," he writes. "That's why we respect your privacy and protect it with strong encryption, plus strict policies that govern how all data is handled....We believe in telling you up front exactly what's going to happen to your personal information and asking for your permission before you share it with us."

On the site, Apple describes the steps taken to keep people's location, communication, browsing, health tracking, and transactions private. Cook explains, "Our business model is very straightforward: We sell great products. We don't build a profile based on your email content or web browsing habits to sell to advertisers. We don't 'monetize' the information you store on your iPhone or in iCloud. And we don't read your email or your messages to get information to market to you. Our software and services are designed to make our devices better. Plain and simple." Its new stance earned Apple the highest possible

Do They Trust You with Their Data?

Consumers' faith that their personal information will be handled responsibly varies widely from industry to industry. Here are the percentages of people who said that each category of organization was "trustworthy" or "completely trustworthy" when it came to making sure that personal data was never used in any way that they wouldn't want.



Using Humor to Teach About Data Privacy

Britain's Channel 4 does an excellent job of educating its viewers about its data collection and privacy policy. On a dedicated website, the TV station details the type of information gathered and how it's used, and summarizes the policy in a short, entertaining video. For example, the 2012 version of the video featured the comedian Alan Carr. As he deadpanned, "We'll ask you for your name, email, and a few other details. Now, I know what you're thinking. Why should you give us your name and inside-leg measurement? What will we do with that information?" He then explained that viewers maintain complete control of their data, that it will never be sold, and that it can be erased from the system at their request at any time.

Carr's video, which was viewed millions of times, was one component of Channel 4's vigorous Viewer Promise program. According to Steven Forde, the channel's director of viewer relationship management, these efforts have built trust and encouraged data sharing: Eleven million viewers have registered on the site. Eighty percent of them volunteer their address details, though they're not required to, and fewer than 0.01% opt out of targeted advertising.

score—six stars—from the nonprofit digital rights organization Electronic Frontier Foundation, a major improvement over its 2013 score of one star.

Enlightened Data Principles

Facebook and Apple are taking steps in the right direction but are fixing issues that shouldn't have arisen in the first place. Firms in that situation start the trust-building process with a handicap. Forward-looking companies, in contrast, are incorporating data privacy and security considerations into product development from the start, following three principles. The examples below each highlight one principle, but ideally companies should practice all three.

Teach your customers. Users can't trust you if they don't understand what you're up to. Consider how one of our clients educates consumers about its use of highly sensitive personal data.

This client, an information exchange for biomedical researchers, compiles genomic data on anonymous participants from the general public. Like all health information, such data is highly sensitive and closely guarded. Building trust with participants at the outset is essential. So the project has made education and informed consent central to their experience. Before receiving a kit for collecting a saliva sample for analysis, volunteers must watch a video about the potential consequences of having their genome sequenced—including the possibility of discrimination in employment and insurance—and after viewing it, must give a preliminary online consent to the process. The kit contains a more detailed hard-copy agreement that, once signed and returned with the sample, allows the exchange to include the participant's anonymized genomic information in the database. If a participant returns the sample without the signed consent, her data is withheld from the exchange. Participants can change their minds at any time, revoking or granting access to their data.

Give them control. The principle of building control into data exchange is even more fully developed in another project, the Metadistretti e-monitor, a collaboration between frog, Flextronics, the University Politecnico di Milano, and other partners. Participating cardiac patients wear an e-monitor, which collects ECG data and transmits it via smartphone to medical professionals and other caregivers. The patients see all their own data and control how much data goes to whom, using a browser and an app. They can set up networks of health care providers, of family and friends, or of fellow users and patients, and send each different information. This patient-directed approach is a radical departure from the tradition of paternalistic medicine that carries over to many medical devices even today, with which the patient doesn't own his data or even have access to it.

Deliver in-kind value. Businesses needn't pay users for data (in fact, our research suggests that offers to do so actually reduce consumers' trust). But as we've discussed, firms do have to give users value in return.

The music service Pandora was built on this principle. Pandora transparently gathers self-reported data; customers

Grudging and minimal compliance with local rules may keep a firm out of trouble but will do little to gain consumers' trust—and may even undermine it.

volunteer their age, gender, and zip code when they sign up, and as they use the service they tag the songs they like or don't like. Pandora takes that information and develops a profile of each person's musical tastes so that it can tailor the selection of songs streamed to him or her; the more data users provide, the better the tailoring becomes. In the free version of its service, Pandora uses that data to target advertising. Customers get music they enjoy at no charge and ads that are more relevant to them. Consumers clearly find the trade satisfactory; the free service has 80 million active subscribers.

In designing its service, Pandora understood that customers are most willing to share data when they know what value they'll receive in return. It's hard to set up this exchange gracefully, but one effective approach is to start slowly, asking for a few pieces of low-value data that can be used to improve a service. Provided that there's a clear link between the data collected and the enhancements delivered, customers will become more comfortable sharing additional data as they grow more familiar with the service.

IF YOUR COMPANY still needs another reason to pursue the data principles we've described, consider this: Countries around the world are clamping down on businesses' freewheeling approach to personal data. (See the sidebar "Data Laws Are Growing Fiercer.")

There is an opportunity for companies in this defining moment. They can abide by local rules only as required, or they can help lead the change under way. Grudging and minimal compliance may keep a firm out of trouble but will do little to gain consumers' trust—and may even undermine it. Voluntarily identifying and adopting the most stringent data privacy policies will inoculate a firm against legal challenges and send consumers an important message that helps confer competitive advantage. After all, in an information economy, access to data is critical, and consumer trust is the key that will unlock it.

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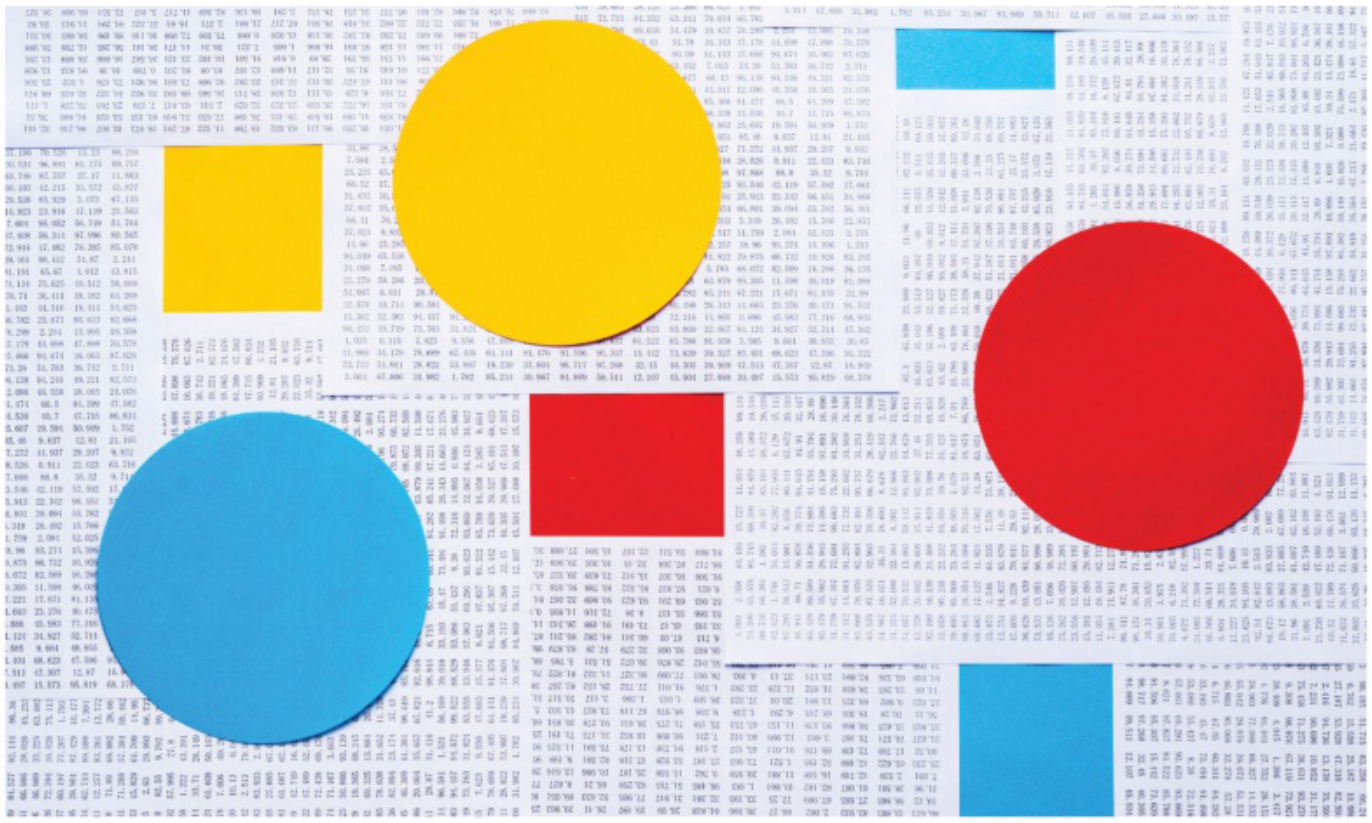
MAKE THE MOST OF DATA

Quick Takes



MIRAGEC/GETTY IMAGES

1. Why Marketing Analytics Hasn't Lived Up to Its Promise

→ by CARL F. MELA and CHRISTINE MOORMAN

WE SEE A PARADOX in two important analytics trends. The most recent results from The CMO Survey conducted by Duke University's Fuqua School of Business and sponsored by Deloitte LLP and the American Marketing Association reports that the percentage of marketing budgets companies plan to allocate to analytics over the next three years will increase from 5.8% to 17.3%—a whopping 198% increase. These increases are expected despite the fact that top marketers report that the effect of analytics on company-wide performance remains modest, with an average performance score of 4.1 on a 7-point scale, where 1 is "not at all effective" and 7 is "highly effective." More important, this performance impact hasn't increased much over the last five years, when it was rated 3.8 on the same scale.

How can it be that firms have not seen any increase in how analytics contribute to company performance but are nonetheless planning to increase spending so dramatically? Based on our work with member companies at the Marketing Science Institute, two competing forces explain this discrepancy—the data used in analytics and the analyst talent producing it. We discuss how each force has inhibited organizations from realizing the full potential of marketing analytics and offer specific prescriptions to better align analytics outcomes with increased spending.

The Data Challenge

Data is becoming ubiquitous, so at first blush it would appear that analytics should be able to deliver on its promise of value creation. However, data grows on its own terms, and this growth is often driven by IT investments rather than coherent marketing goals. As a result, data libraries often look like the proverbial cluttered closet, where it is hard to separate the insights from the junk.

In most companies, data is not integrated. Data collected by different systems is disjointed, lacks variables to match the data, and uses different coding schemes. For example, data from mobile devices and data from PCs might indicate similar browsing paths, but if the consumer data and the data on pages browsed cannot be matched, it is hard to determine browsing behavior. That's why understanding how data will ultimately be integrated and measured should be considered before collecting the data, precisely because it will lower the cost of matching.

Without the right analytic approach, no amount of investment will translate to insights.

What's more, most companies have huge amounts of data, making it hard to process in a timely manner. Merging data across a vast number of customers and interactions involves "translating" code, systems, and dictionaries. Once cohered, vast amounts of information can overwhelm processing power and algorithms. Many approaches exist to scale analytics, but collecting data that cannot be analyzed is inefficient.

An irony of having too much data is that you often have too little information. The more data and fields collected, the less they overlap, creating "holes" in the data. For example, two customers with the same level of transactions could have very different shares of wallet. Whereas one represents a selling opportunity, the other might offer little potential gain. Data should be designed with an eye toward imputation so that the holes in the data can be filled as needed to drive strategy.

Perhaps worst of all, data is often not causal. For example, while it is true that search advertising can be correlated with purchase because customers are motivated to buy, it does not follow that ads cause sales. Even if a firm doesn't advertise, consumers are motivated to buy, so how does one know whether the ads were effective? Worse, as data grows, these problems compound. Without the right analytic approach, no amount of investment will translate to insights.

Companies should do two things to harness the power of analytics in their marketing functions. First, rather than create data and then decide what to do with it, firms should decide what to do first, and then which data they need to do it. This means better integrating marketing and IT and developing systems around the information needs of the senior management team instead of creating a culture of "capture data and pray."

Second, companies should create an integrated 360-degree view of the customer that considers every customer behavior from waking up in the morning to going to bed. Every potential engagement point, for both communication and purchase, should be captured. Only then can firms completely understand their customers via analytics and develop customized experiences to delight them. The CMO Survey we referenced above shows that firms' performance on this type of integration has not improved over the past five years, challenging companies' ability to answer the most important questions about their customers.

The Data Analyst Challenge

The CMO Survey also found that only 1.9% of marketing leaders reported that their companies have the right talent to leverage marketing analytics. Good data analysts, like good data, are hard to find. Sadly, the overall rating on a 7-point scale, where 1 is "does not have the right talent" and 7 is "has the right talent," has not changed between the first time the question was asked in 2013 (mean 3.4, SD =1.7) and 2017 (mean 3.7, SD =1.7).

The gap between the promise and the reality of analytics points to a disconnect that needs resolution. Companies need to better align their data strategy and data analyst talent to realize the potential that analytics can bring to marketing managers. In the absence of talent, even great data can lie fallow and prevent a firm from harnessing the full potential of the data. Good data analysts should be able to:

Clearly define the business problem. Managers who rely on data scientists to know what might be possible to do with the data often find great value in simply having that person help define the problem. For example, a marketer asking a data analyst questions about driving conversions might not realize that there's also data at the top of the purchase funnel that might be even more germane to driving long-term sales. Rather than taking requests as they are stated, data analysts should take requests as they *should* be asked, integrating advice tightly with the needs of the company. For example, a request to assess how marketing promotions affect sales should also account for the effect of promotions on brand equity.

Understand how algorithms and data map to business problems. Companies will see more-effective data analytics if teams are clear on firm objectives, informed of the strategy, sensitive to organizational structure, and exposed to customers. To enable this understanding, data analysts should spend physical time outside of data analytics, perhaps visiting customers to help them understand market requirements, attending market

planning meetings to better appreciate the company's goals, and helping to ensure data (IT), data analytics, and marketing are all aligned.

Understand the company's goals. Data analytics is beset by multiple requests, like a waiter serving too many customers. A clear recognition of a firm's goals enables data analysts to prioritize projects and allocate time to the most important ones (those that have the highest marginal value to a firm). Requests should be centralized and then prioritized by (1) whether the findings can potentially change the way things are done and (2) the economic consequences of such changes. Some companies develop standardized forms to ensure requests are assessed on an equal footing, which mitigates the potential for opportunistic research clients to ask analysts to conduct a study to support a preconceived strategy for political reasons, instead of deciding between strategies that are in the best interests of the firm.

Communicate insights, not facts. Communication theory tells us that the transmitter and the receiver of information must share a common domain of knowledge for information to be transmitted. This means analysts need to understand what the firm's managers can understand. Small font sizes, complex figures and equations, the use of jargon, and an emphasis on the modeling process instead of insights and explanations are common errors when presenting analyses. Why should one use a complicated model to present information when a simple infographic would suffice? Presentations should be organized around insights rather than analytic approaches. This is another reason it is critical for analysts to connect externally with customers and internally with the managers using their work. Plus, instead of reporting a "parameter estimate," an analyst should communicate how results point to tangible strategic actions. This requires analysts to structure their analysis in a decision framework that helps managers assess best- and worst-case scenarios.

Develop an instinct for mapping the variation in the data to the business questions. That means two things. First, analysts need a comprehensive understanding of all the relevant drivers (such as marketing and environmental factors) and outcomes (such as purchase funnel metrics). For example, to ascertain the effect of advertising on sales, one would need to recognize that concurrent changes in product design can affect sales, lest one misattribute the effect of product changes to the advertising that announces them. Second, analysts must have a means to ensure that drivers lead to outcomes instead of outcomes leading to drivers. Once again, this requires the analyst to understand the nature of the markets being analyzed. Regarding the latter, no complicated model that purports to control for missing information can ever compensate fully for lack of causal variation. Likes drive sales and sales drive likes. However, disentangling the two means having some factor that can independently manipulate one and not the other.

Identify the best tool for the problem. On the analytics side, it goes without saying that years of training and practice are necessary. One cannot play an instrument without learning it, and the same is true for analysts. Most important is knowing which tool, of the many available, is best for which problem. At a very granular level, experimental methods are especially adept at assessing causality; supervised machine learning excels at prediction where nonsupervised machine learning can decompose nonnumerical stimuli into tags or attributes for further analysis. Economics and psychology afford deep insights into the nature of consumer behavior, and statistics can help us excel at inference. A strong understanding of marketing grounds all these tools and disciplines in the business context necessary to produce effective advice.

Span skill boundaries. Some marketing analysts excel at math and coding, and some excel at framing issues, developing explanations, and connecting to business implications. A far smaller set excel at both. Companies need to either wrap these variegated skills into one person through training and accumulating different types of experiences or, more likely, assemble a team that is sufficiently facile with the techniques that they can interact productively, ensuring that some mechanism matches the approach (and the analyst) to the problem. This match requires senior talent, with the breadth of

perspective to align analytical resources and business problems.

In light of the exponential growth in customer, competitor, and marketplace information, companies face an unprecedented opportunity to delight their customers by delivering the right products and services to the right people at the right time, with the right format, location, devices, and channels. Realizing that potential, however, requires a proactive and strategic approach to marketing analytics. Companies need to invest in the right mix of data, systems, and people to realize these gains.

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JUICE IMAGES/GETTY IMAGES

2. Your Data Isn't Helping Your Marketers If They Can't Access It

→ by LAURA BEAUDIN and MARK BRINDA

MARKETERS THESE DAYS can capture and analyze sales patterns in minute detail. They can geolocate customers and mine transaction histories. They can see patterns emerge from wholly new information streams, such as what people are saying about the company on social media. Because much of the data flows into a company in real time, they can also see what their customers are up to *right now*.

That's the way it works in theory, anyway. In practice, all this data usually sits in different places—a company's legacy CRM systems, its loyalty program databases, new cloud-based applications, third-party servers, and so on. That makes it hard to access. Sometimes marketers must wait in line to get the data they need served up to them by IT.

What's the solution? A few companies have begun to integrate all those data flows into a single overall view of each customer. They update records immediately. Every additional transaction or data point is instantly accessible to anyone using the system, giving marketers and salespeople a remarkably full and intelligent view of their customers.

The Chinese cosmetics company Jahwa is a case in point. Jahwa provides reps on the sales floor with mobile devices that can tap into an integrated database. When the rep puts in the name of the customer they are serving, the device provides data and recommendations tailored specifically to that customer—similar to the recommendation engine consumers now experience on many digital sites. The information makes for a much more productive interaction.

The first step in creating such a system is organizational, not technical; it involves ending the traditional turf wars between marketing, IT, and other functions. People from each group need to share priorities and develop

an overall plan together. Some companies have created the new position of chief marketing technology officer to oversee the collaboration. Others are sticking with the existing org chart but making changes to their operating model so that the functions work together rather than at cross-purposes. They expect IT to become more of a business partner, developing a joint road map and investment plan with marketing as part of the annual resource planning cycle.

Only then should the company create the new integrated customer records, which generally go by the name master data management (MDM). An MDM system sits on top of existing databases, capturing everything from store traffic patterns and online behavior to comments on social media. Every interaction enters the system in real time. Like Jahwa's sales reps, users of the system can tap into it from wherever they happen to be.

None of this is easy. Companies need to crawl before they can run, starting small and building from there. They have to invest, keeping the ultimate goal of actionable information in mind and not getting distracted by the long list of other data-related priorities. And they can't let the "perfect" be the enemy of the "good." Many organizations have countless databases, some of them built many years ago. Integrating them all into a single MDM solution will almost always be cost prohibitive.

Instead, savvy marketers focus on the handful that matter most and concentrate on getting actionable data. One national retailer, for instance, integrated key databases and then pulled large samples of customers from various start years, analyzing how different segments behaved over the following years. That gave marketers detailed information they could immediately use—and contributed to the retailer's recent outperformance vis-à-vis competitors.

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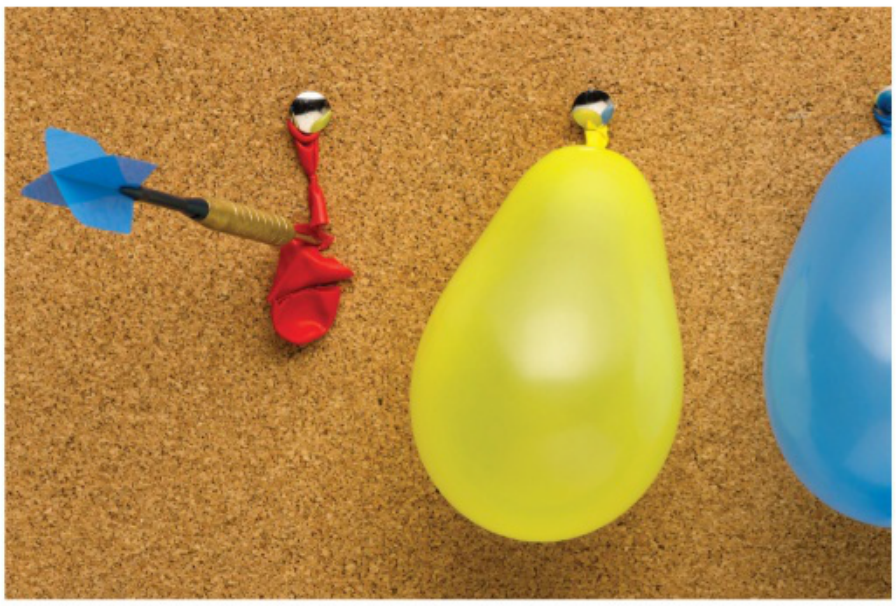

3. How Targeted Ads and Dynamic Pricing Can Perpetuate Bias

→ by ALEX P. MILLER and KARTIK HOSANAGAR

IN THEORY, MARKETING personalization should be a win-win proposition for both companies and customers. By delivering just the right mix of communications, recommendations, and promotions—all tailored to each individual's particular tastes—marketing technologies can result in uniquely satisfying consumer experiences.

Although ham-handed attempts at personalization can give the practice a bad rap, targeting technologies are becoming more sophisticated every day. New advancements in machine learning and big data are making personalization more relevant, less intrusive, and less annoying to consumers. However, along with these developments comes a hidden risk: the ability of automated systems to perpetuate harmful biases.

In new research, we studied the use of dynamic pricing and targeted discounts in which we asked if (and how) biases might arise if the prices consumers pay are decided by an algorithm. A cautionary tale of this type of person-

JEFFREY COOLIDGE/GETTY IMAGES

Even the largest tech companies and algorithmic experts have found it challenging to deliver highly personalized services while avoiding discrimination.

alized marketing practice is that of the Princeton Review. In 2015 it was revealed that the test-prep company was charging customers in different ZIP codes different prices, with discrepancies between some areas reaching hundreds of dollars, despite the fact that all its tutoring sessions took place via teleconference. In the short term, this type of dynamic pricing may have seemed like an easy win for boosting revenues. But research has consistently shown that consumers view it as inherently unfair, leading to lower trust and repurchasing intentions. What's more, the Princeton Review's bias had a racial element: A highly publicized follow-up investigation by journalists at ProPublica demonstrated how the company's system was, on average, systematically charging Asian families higher prices than non-Asians.

Even the largest tech companies and algorithmic experts have found it challenging to deliver highly personalized services while avoiding discrimination. Several studies have shown that ads for high-paying job opportunities on platforms such as Facebook and Google are served disproportionately to men. And, just this year, Facebook was sued and found to be in violation of the Fair Housing Act for allowing real estate advertisers to target users by protected classes, including race, gender, age, and more.

What's going on with personalization algorithms, and why are they so difficult to wrangle? In today's environment—with marketing automation software and automatic retargeting, A/B testing platforms that dynamically optimize user experiences over time, and ad platforms that automatically select audience segments—more important business decisions are being made automatically without human oversight. And while the data that marketers use to segment their customers is not inherently demographic, these variables are often correlated with social characteristics.

To understand how this works, suppose your company wants to use historical data to train an algorithm to identify customers who are most receptive to price discounts. If the customer profiles you feed into the algorithm contain attributes that correlate with demographic characteristics, the algorithm is highly likely to end up making different recommendations for different groups. Consider, for example, how often cities and neighborhoods are divided by ethnic and social classes and how often users' browsing data may be correlated with their geographic location (for example, through their IP address or search history). What if users in white neighborhoods responded strongest to your marketing efforts in the last quarter? Or perhaps users in high-income areas were most sensitive to price discounts. (This is known to happen in some circumstances not because high-income customers can't afford full prices but because they shop more frequently online and know to wait for price drops.) An algorithm trained on such historical data would—even without knowing the race or income of customers—learn to offer more discounts to the affluent white ones.

To investigate this phenomenon, we looked at dozens of large-scale e-commerce pricing experiments to analyze how people around the United States responded to different price promotions. By using customers' IP addresses as an approximation of their location, we were able to match each user to a U.S. Census tract and use public data to get an idea of the average income in their area. Analyzing the results of millions of website visits, we confirmed that, as in the hypothetical example above, people in wealthy areas responded more strongly to e-commerce discounts than those in poorer ones, and since dynamic pricing algorithms are designed to offer deals to users most likely to respond to them, marketing campaigns would probably systematically offer *lower* prices to *higher*-income individuals going forward.

What can your company do to minimize these socially undesirable outcomes? One possibility for algorithmic risk mitigation is formal oversight for your company's internal systems. Such "AI audits" will probably be complicated processes, involving assessments of accuracy, fairness, interpretability, and robustness of all consequential algorithmic decisions at your organization.

While this sounds costly in the short term, it may turn out to be beneficial for many companies in the long term. Because "fairness" and "bias" are difficult to universally define, having more than one set of eyes looking for algorithmic inequities in your systems increases the chances you catch rogue code before it ships. Given the social, technical, and legal complexities associated

with algorithmic fairness, it will most likely become routine to have a team of trained internal or outside experts trying to find blind spots and vulnerabilities in any business processes that rely on automated decision-making.

As advancements in machine learning continue to shape our economy and concerns about wealth inequality and social justice increase, corporate leaders must be aware of the ways in which automated decisions can cause harm to both their customers and their organizations. It is more important than ever to consider how your automated marketing campaigns might discriminate against social and ethnic groups. Managers who anticipate these risks and act accordingly will set their companies up for long-term success.

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MASTER1305/GETTY IMAGES

4. A Better Way to Calculate the ROI of Your Marketing Investment

→ by WERNER REINARTZ and RAJKUMAR VENKATESAN

TRADITIONALLY, MARKETERS calculate the ROI of a marketing investment by measuring how much sales increased in its aftermath. This is a blunt metric: Maybe the consumer had a different interaction with the brand that influenced them. Or maybe they had an intrinsic preference for the brand and would have made a purchase anyway.

Today the situation has changed. Marketers have access to data that allows them to track individuals' various interactions with a brand before their purchase and better understand what role each interaction—and individual preferences—played in the eventual sale.

This approach, called *attribution modeling,* allows companies to attribute appropriate credit to each online and offline contact and touch point in a customer's purchase cycle and understand its role in the revenues that ultimately result. A good attribution model should show, for example, precisely which ads or search keywords are most associated with actual purchases.

Developing an attribution model is a gradual process. You can't get there all at once. The journey has four key stages:

STAGE 1

Prepare Your Data

You can't have any kind of attribution model without data around touch points and outcomes. Many companies collect this data but often store it in different data-

Attribution modeling is perhaps the best navigation tool for companies negotiating complex cause-and-effect environments.

bases and in ways that make comparison difficult. Once companies can access and analyze data around touch points and purchases, they can detect patterns and are ready to apply simple attribution models. These involve applying rules of thumb, such as "give all credit to the last point of interaction" or "give equal credit to all points of interaction with the customer before a purchase is made."

They may sound simplistic, but even simple rules-based models can deliver immediate results. This was the case at one company we recently advised. Only after considerable efforts to get data for each touch point aligned in one repository could the company begin to figure out sensible rules of thumb to guide marketing investments. It began by simply allocating resources to each touch point as a direct function of the company's marginal ROI. Even this rather rough-and-ready approach sharply improved the company's overall marketing ROI.

STAGE 2

Experiment

As managers get more comfortable with a rules-based model, they can begin to conduct experiments to fine-tune the attribution rules. Most important, you can start to assess the degree to which a given touch point depends on other touch points. You could, for example, test a search tool's role in a customer's cycle by turning display advertising on or off. This allows managers to identify clusters of touch points that might individually look less powerful but collectively pack more punch than simply focusing on those that look individually strongest.

An insurance company we interviewed conducted several regional experiments to evaluate the synergy of television, organic search, and display advertisements. The company varied the exposure of its consumers to TV ads across the different regions they served. They found that organic visits to the website and display advertisement click-through all increased disproportionally in a region when consumers there were also exposed to TV ads. This experiment motivated the firm to start better coordinating its marketing campaigns across media channels.

STAGE 3

Apply Statistical Models

Companies that are experienced in identifying and testing simple patterns that arise from the data soon become ready to try out more-sophisticated attribution models, typically involving multivariate regression analysis, maybe even employing Bayesian estimation. These models offer formulas that allow marketers to determine with some confidence what touch points to invest in, the synergy obtained from multiple consumer exposures to the same media over time, and how much to put in relative to each other. Importantly, these models explain and predict. While they are not perfect predictive models, of course, following the attributions determined by the model will, as with the initial application of simple rules, usually deliver an improvement in ROI.

A retailer we worked with used multivariate regression analysis and Bayesian estimation to understand the effect of repeated exposure of consumers to their targeted offline communications. The analyses showed that the retailer needed to communicate in all channels but could decrease the rate of communications over the three months following the first touch, rather than maintain a constant stream of messages. Acting on this finding boosted the ROI of their offline communications by at least 10%.

STAGE 4

Expand the Scope of Analysis

So far, the marketer has been making attributions solely on an analysis of the customer's purchase journey—how the company has touched the customer from the start of the purchase cycle to its conclusion. But a customer's choices are also strongly determined by experiences that take place outside that journey—in terms of both time and whom the customer is actually interacting with.

To gauge the effects of out-of-time interactions or interactions with other parties, companies can turn to the fancier creatures in the bestiary of statistical methodologies. Panel vector-autoregression (panel VAR) models, for example, can be used to model the effect of a company's television advertising in the current time period on the effectiveness of other media channels (for example, paid search click-through) in future time periods. Of course, these statistical models can then be combined with subsequent experiments to test the very recommendations from the statistical models in the field.

A software company we advised developed such a statistical model and improved it over iterations to understand the attribution rules across offline (such as TV and radio) and digital media (branded and unbranded search, display, and so forth). While a "last point of interaction" rule would have given all credit to branded search for this company, an advanced statistical model like a panel VAR accurately showed this company that clicks coming through branded search were boosted by TV advertising. Subsequent to this analysis, the company in fact increased their investment in TV rather than decreasing it. Implementation of this new strategy led to a substantial improvement in total marketing ROI for this company.

Dealing with complexity is an unavoidable necessity for today's marketers—making informed and advanced media and channel allocation decisions in a multichannel and technology-mediated business environment is a demanding task by any standard. Attribution modeling is perhaps the best navigation tool for companies negotiating complex cause-and-effect environments, but using it requires a willingness to build the right capabilities over time. And remember: You have to learn to walk before you run.

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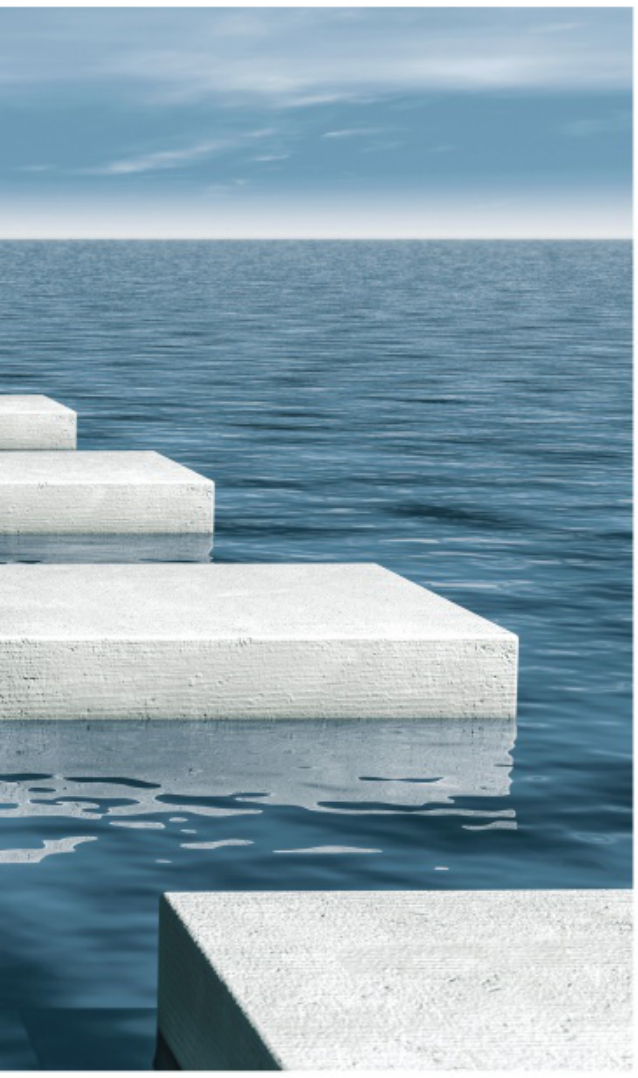
5. Why Every Sales and Marketing Team Needs a "Boundary Spanner"

→ by ANDRIS A. ZOLTNERS, PRABHAKANT SINHA, SALLY E. LORIMER, and DHARMENDRA SAHAY

ADVANCES IN DATA, technology, and analytics continue to bring new opportunities for improving sales and marketing effectiveness. Digital capabilities have evolved from descriptive (reporting what happened), to diagnostic (understanding why), to predictive (projecting what will happen), to prescriptive (recommending

Boundary spanners have empathy for the commercial mindset as well as the IT mindset.



what to do). But the road to realizing value continues to be bumpy.

Publications routinely highlight individual successes with systems such as customer relationship management (CRM), reporting, and AI-enabled sales/marketing. Benefits touted include better leads and conversion rates, larger deal sizes, and increased sales productivity and growth. Yet surveys show widespread dissatisfaction with sales and marketing systems. For example, in a 2019 PCMag survey, the Net Promoter Score is negative for most major CRM providers.

Too often when these initiatives fail, companies blame a flawed strategy: poor vision or focus on inspection, not business impact. Other times, they point to implementation challenges: data-quality problems or inattention to change management. But the one aspect that is often overlooked is the profile of the person leading the effort.

In the successes we have seen, in almost every case, there is a very special profile of the person leading the effort. This most valuable player of technology implementations is a boundary spanner.

Boundary spanners cut across business and technology in their experience. They have empathy for the commercial mindset ("Get it done. Produce results.") as well as the IT mindset ("Design for long term. Control risk."). Although our experience is with sales and marketing, we suspect this leader profile is critical in other domains as well. Not surprisingly, 62% of the respondents in PwC's 2017 Digital IQ Survey identified "a lack of collaboration between IT and business" as the leading obstacle to the success of digital initiatives.

So, what do boundary spanners do and how do they do it? Why are they so critical to the success of these initiatives? How do we mint more boundary spanners in organizations?

How Boundary Spanners Enable Success

Sales/marketing has certain priorities: innovating new ideas, chasing opportunities, and getting quick results. IT has priorities, too, that are equally important but potentially conflicting: controlling costs and risks, developing enterprise capabilities, and ensuring longer-term sustainability. Boundary spanners can rally both sales/marketing and IT around a common purpose. They can dream with the business stakeholders in the vision phase while aligning the same stakeholders with realistic priorities and the IT mindset in the implementation phase. Boundary spanners know when to support IT instincts and when to support sales/marketing instincts.

For example, a boundary spanner will:

- Support IT by helping business stakeholders see the timeline, quality, and budget risks of adding new features too late in the process
- Support sales/marketing by helping IT see the benefits of using an innovative technology that delivers better on business needs, compared with a tried-and-true solution
- Push back against both IT and sales/marketing to keep things simple when design-by-committee is making the system unwieldy and hard to use
- Bring new insights that may not come naturally to either sales/marketing or IT. A boundary spanner might launch a minimum viable solution with an early-experience team to enable quick adaptation and tailoring. They can also align both parties around an agile, iterative, and fail-fast mentality when the underlying technology is new.

A Boundary Spanner in Action

When a software company developed an AI-powered system for its inside sales team, a boundary spanner led the project. The project created a system of interconnected models that scored and calibrated account opportunities and shared insights with salespeople. These insights included which accounts were most

likely to churn and why, what the salesperson could do to mitigate the risk, and suggestions for the next-best product offering based on an account's propensity to buy. The system delivered recommendations to inside salespeople in seven different time zones. The initiative came out of a grassroots effort within the sales force. The project champion and team leader came from sales but had previously worked in IT. With a boundary-spanning perspective, the leader cultivated a common belief and purpose for AI-enabled selling, bringing together dozens of people from IT, sales, marketing, and product groups looking for sales team support. Ultimately, the initiative led to millions of dollars in new revenue and increased customer satisfaction.

The Making of Boundary Spanners and Why Their Ranks Are Growing

Boundary spanners are shaped through varied experience that allows them to develop broad empathy. Generally, their career paths span technology and business roles. For example, one boundary spanner started her career in IT where she focused on application development. Next, she moved to an analyst role, supporting the marketing organization with reporting and diagnostics. From there she joined a team that implemented a migration of reporting to mobile devices, interacting with designers and users throughout the implementation. Next, she was the business leader for the development of a global, cloud-based commercial data lake. The most successful boundary spanners have lived through multiple technology implementations in varying roles and have experienced both successes and failures.

Unfortunately, for all the value boundary spanners bring, we don't see enough of them leading technology initiatives. In the past, companies have been unaware of the importance of boundary-spanning capabilities. Also, siloed corporate structures have impeded the development of boundary-spanning skills. Leaders have advanced either in IT or in sales/marketing, with little opportunity to move between functions. But this situation is changing rapidly.

Recent trends point toward a spike in the supply of boundary-spanning talent coming out of IT. As companies use more pay-as-you-go services (for example, SaaS, cloud computing, and outsourced analytics), IT has become increasingly focused on bringing value by linking business needs with technology capabilities. This fundamentally changes the profile of corporate IT talent. Increasingly, companies seek IT professionals who can use leading-edge technologies to design business solutions. We are already seeing more IT professionals taking initiative to seek out boundary-spanning roles. Companies can benefit from having a more formal program to develop such talent.

As companies develop more boundary-spanning talent, we expect to see more organizations embedding digital sales and marketing systems into core processes with greater success.

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ADVERTISEMENT

Why Agility Is Critical to Business Growth

Marie Gulin-Merle is Google's VP of Global Ads Marketing.

The uncertainties of today's global economy make it increasingly important to plan ahead and pivot. To get the most return on investment (ROI), marketing and finance teams need to partner closely to stay agile while managing their resources and budgets.

To explore agility in digital marketing specifically, Google recently partnered with Kantar to survey over 2,400 global marketers and understand their approaches to planning, allocating, and optimizing digital budgets. Nearly a quarter of the marketers surveyed are considered "budget-agile"—meaning they adjust budgets across digital channels on a weekly or more frequent basis.

Leading marketers are budget-agile

Budget-agile marketers report better marketing performance: 48% of budget-agile marketers say their marketing performance exceeded internal expectations and key performance indicators (KPIs), compared to 33% of marketers who are not budget-agile.

Budget agility empowers marketers to stay flexible and reallocate budget to areas of high potential: 31% of budget-agile marketers say it's "very easy" to get additional budget to start new tests that weren't included in the initial media budget, compared to 9% of non-budget-agile marketers.

Having the flexibility to engage in planning while leaving room for growth opportunities can yield better business outcomes. Budget-agile marketers are 25% more likely than non-agile marketers to report their performance as stronger than industry competitors.

Are you as agile as you think?

Most marketers overestimate how budget-agile they really are, based on their behaviors. Teams often can't make flexible adjustments to allocate spend where the highest-ROI opportunities exist.

On average, 60% of marketers who say they are "extremely agile" only make budget adjustments across digital channels monthly or less frequently. Only 17% of budget-agile marketers and 6% of non-agile marketers have channels with uncapped or unlimited budgets that make it easy to increase budgets for new opportunities. And even marketers who are considered budget-agile face time-consuming approvals to pass budget changes. For 59% of budget-agile marketers, digital budget changes of 20% or more take a week or longer for approval.

The gap in perceived budget agility and actual budgeting behaviors exists up and down the organizational ladder, but it's especially prevalent in the C-suite. In fact, C-level executives are two times more likely than individual contributors to perceive their business as extremely budget-agile.

Four actions to boost budget agility

It doesn't take dramatic changes to make meaningful progress. Organizations can improve budget agility with four measures.

1. **Breaking down silos:** 58% of marketers have created more cross-channel team touchpoints such as meetings, training, and information-sharing to improve collaboration.
2. **Adopting automation for media buying:** Budget-agile marketers are 29% more likely than non-agile marketers to use automation to maximize ROI across channels.
3. **Implementing consistent measurement:** 41% of marketers surveyed have instituted shared metrics and KPIs across channels to improve collaboration.
4. **Partnering with agencies:** 42% of budget-agile marketers say their agency partners greatly influence adjustments they make after initial budget planning, compared to 31% of non-agile marketers.

Don't let your plans keep you stuck in the past—as you plan ahead, stay ready to pivot. Becoming a more agile organization can help you move faster, capture new performance opportunities, and drive long-term business growth.

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Are You Undervaluing Your Customers?

It's time to start measuring and managing their worth.

→ by ROB MARKEY

THE TRUE PURPOSE of a business, Peter Drucker said, is to create and keep customers. Most managers understand this, but few behave as if they do. Under relentless earnings pressure, they often feel cornered, obliged to produce quick profits by compromising product quality, trimming services, imposing onerous fees, and otherwise shortchanging their customers. This short-termism erodes loyalty, reducing the value customers create for the firm.

It should not be this way. Earning customer loyalty is firmly in the interest of both shareholders and management. My research shows that loyalty leaders—companies at the top of their industries in Net Promoter Scores or satisfaction rankings for three or more years—grow revenues roughly 2.5 times as fast as their industry peers and deliver two to five times the shareholder returns over the next 10 years. Yet companies and investors continue to prioritize quarterly earnings over customer relationships, for three main reasons: Public-company financial disclosure rules and corporate accounting practices require little to no reporting on customer value; most firms lack the capabilities needed for managing it; and organizations' traditional structure puts functional priorities ahead of customer needs.

The roots of the problem can be traced to the 1890s and the birth of modern financial accounting, but the situation worsened in 1970, when Milton Friedman introduced the age of shareholder primacy, which held that companies exist to maximize shareholder value. Since then, companies have perfected sophisticated systems and practices for delivering on that promise. A decade ago, Roger Martin, then dean of the University of Toronto's Rotman School of Management, inverted this notion. He espoused a new "age of customer capitalism" in which companies that put customers first would create even greater value for shareholders. He was not taking issue with Friedman's basic assertion but pointing out that its practical application had gone awry. The blind pursuit of shareholder value had devolved primarily into managing investor earnings expectations.

Few acted on Martin's vision. Even if leaders agreed with his premise, they reasonably worried that prioritizing customers could threaten short-term earnings, causing investors to rebel. Further, the technologies, operational skills, and performance measurement systems needed were nascent at best. Pursuing such a strategy was generally

Illustration by **JIAQI WANG**

a risky proposition a decade ago. The time was not right.

Now, though, the missing pieces are falling into place: the emergence of new accounting tools and technologies, a fundamental shift in the way companies organize work, and, perhaps most critically, the realization among at least some investors that customers are the ultimate source of corporate value. CEOs themselves are beginning to acknowledge this idea. In August 2019, the Business Roundtable, representing many of the largest U.S. firms, issued a statement on the purpose of the corporation in which members put delivering value to customers, among other goals, on equal ground with creating shareholder value.

In working with hundreds of companies in a range of industries over 30 years, I have identified four broad strategies that loyalty leaders rely on for superior performance. Those leaders create systems for measuring customer value and invest in the necessary enabling technology, use design thinking methods to build customer loyalty, organize the business around customer needs, and engage the organization and stakeholders—employees, board members, investors—in the transformation. Before we examine each one, let's take a closer look at customer value.

Accounting for Customers

"Customer value" has several definitions. I use the term to mean the total lifetime value of a company's customer base. Companies can increase this value by acquiring more customers, earning more business from existing ones, retaining them longer, making their experience simpler (and often less expensive to deliver) through digital improvements, and so on. Visionary, customer-focused leaders such as Amazon's Jeff Bezos, Costco's Jim Sinegal, and Vanguard's Jack Brennan have long understood the importance of concentrating on customer value as an asset rather than pursuing short-term profits or quarterly earnings, and they've become enduring customer loyalty leaders in the process. It's worth noting that a disproportionate number of loyalty-leading companies are able to resist shareholder pressure, or avoid it altogether, because they are founderled, customer-owned, or not publicly traded.

Companies can destroy customer value in a variety of ways: To boost revenue, enterprise software companies sometimes charge corporate customers change fees that can raise the total cost of ownership to as much as three times the original bid. To cut labor costs, call centers often give agents incentives to minimize call-handling times. To reduce operating costs, restaurant chains sometimes substitute frozen and precooked ingredients in place of fresh and made-to-order food. The resulting profits may look good on the income statement. Such tactics may even lead to short-term earnings growth. But they also scare off potential customers, encourage defection, and make the company vulnerable to poaching by customer-centric competitors.

Given the importance of customer value, leaders should track it as rigorously as they track other key assets, such as buildings, machinery, inventory, and marketable securities. They also should disclose it in their quarterly and annual earnings releases in consistent formats so that investors can make informed judgments about company performance and how it compares with that of industry peers. But most companies wrongly believe that measuring customer value is too difficult or costly. They continue to rely on a centuries-old accounting tradition that emphasizes physical and financial assets, and neither income statements nor balance sheets offer much visibility into the value of a company's customers.

As investors wake up to the importance of customer value, however, many growth-stage companies preparing for an IPO—most so focused on acquiring customers that they're unprofitable—now explicitly direct investors' attention to success in growing the value of their customer base. My team at Bain examined the SEC S-1 registration filings of 309 companies that were preparing for public stock offerings in 2018. Nearly one-quarter of them included non-GAAP metrics such as active customer count, new customers acquired, purchases per customer, and revenue per new-customer cohort.

Some public companies, such as Costco, AMC Entertainment Holdings, Humana, and American Express, increasingly report various types of customer value metrics. Most telecommunications companies—including Verizon, AT&T, and T-Mobile—do as well. The utility company E.ON reports year-over-year customer counts in its audited financials. Its 2018 annual report noted a decline of 200,000 customers in the UK and an increase

Loyalty leaders grow revenues roughly 2.5 times as fast as their industry peers and deliver two to five times the shareholder returns over the next 10 years.

of 100,000 in Germany, while other regions were flat. "As a customer-focused company," E.ON noted, "we see our ability to acquire new customers and retain existing ones as crucial to our success." E.ON began tracking loyalty metrics in 2013 and discloses its performance relative to competitors. Insurance giant Allianz has been doing that even longer.

This is a start, but because there are no customer-value reporting standards or requirements, investors still have an incomplete picture. The minority of companies that do provide customer value information decide for themselves what to disclose. Further, firms may calculate customer metrics differently or tweak them to tell a desired story, or simply stop reporting them if they fail to align with the company's preferred narrative.

We won't truly enter the age of customer capitalism until financial-accounting standards bodies enact rules that require reliable, auditable disclosure of customer-relationship health. This has long been a topic of debate in the accounting world. Over the years the Financial Accounting Standards Board, the International Accounting Standards Board, and others have attempted to improve reporting on intangible assets including customer value. Those efforts have consistently run into challenges related to valuation methodology, differences in industry practices, and the cost of compliance.

I propose a straightforward approach to disclosure that simplifies the accounting task for companies and places the burden of valuation onto investors.

What Investors Need to Know

While we await clear standards and rules, companies should take the lead, disclosing reliable and consistent information about the progress they are making growing customer value as part of their earnings releases. Only then can investors systematically reward those investments. Three new, auditable metrics would suffice in most instances:

- number of gross new customers acquired during the reporting period and number of net new customers remaining at period end
- number of existing (or tenured) active customers (existing customers are those who have been customers for a year or more; active customers have made a purchase in the past year)
- revenue per new and existing customer

Using just these metrics, investors could readily estimate the changing value of a company's customer assets. (See the exhibit "An Investor's View of Customer Value.")

Gathering the data shouldn't be difficult; nearly every company already tracks these metrics. Methods for calculating customer value will differ slightly between subscription-based businesses (think retail banking, cable companies, and software-as-a-service providers) and nonsubscription ones (grocery stores, for example, or parts suppliers), but the basic principles are the same. For subscription businesses in which customers also make discretionary purchases, one additional metric is required: the number of orders placed by new and existing customers during the period.

Idea in Brief

THE PROBLEM
Leaders recognize that they should manage their businesses to maximize the value of the customer base. But too often, earnings pressure results in cost-cutting measures that hurt customers.

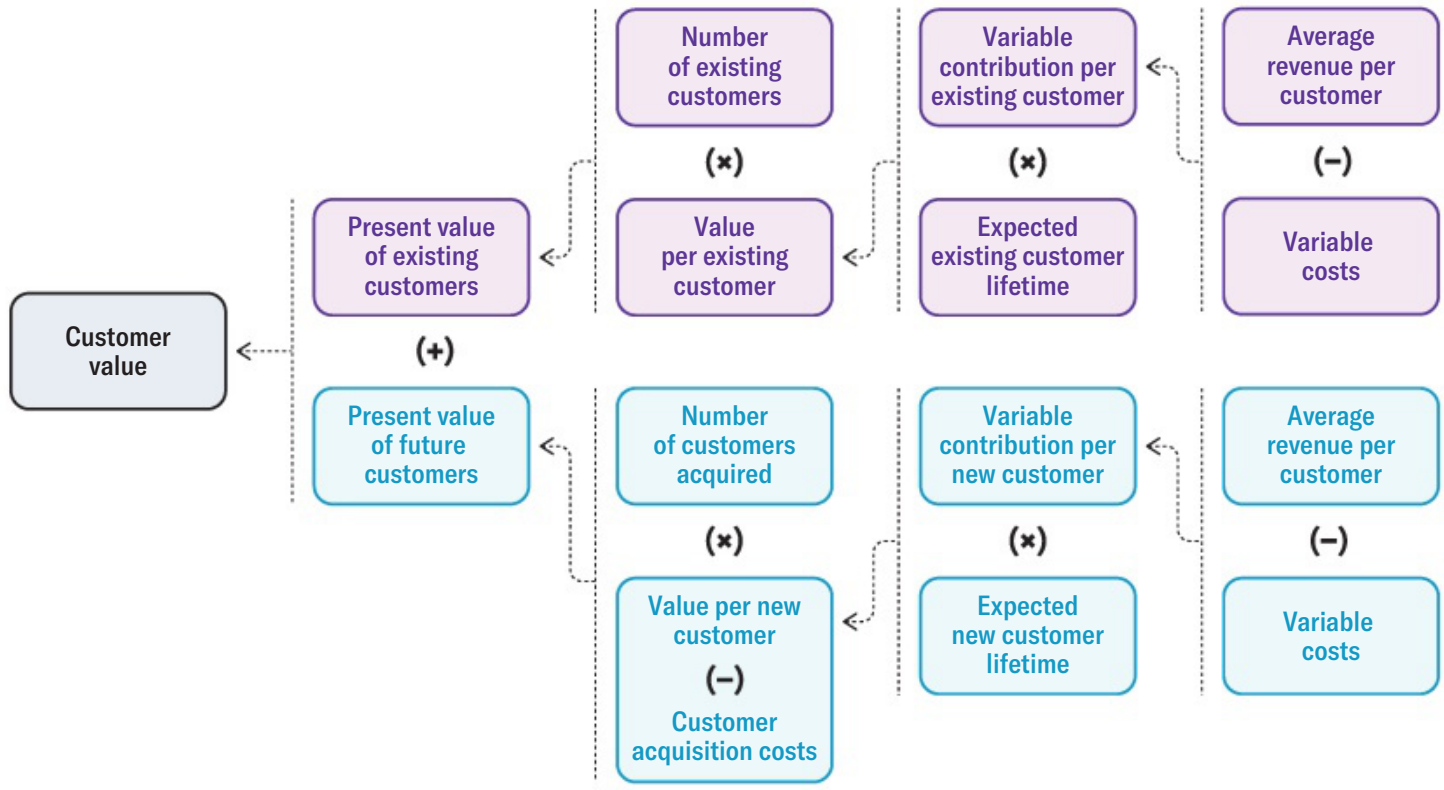
THE APPROACH
Smart companies use new models, technologies, and marketing metrics to increase the number of profitable customers, boost retention, and maximize purchases.

A NEW STANDARD
Given the importance of customer value, leaders should track it as rigorously as they track other key assets. And they must report on it in formats that allow investors to make informed judgements.

To help investors develop more-nuanced valuations, companies could disclose what it costs them to acquire and serve customers in various segments, and provide a breakdown of customer counts and revenue by cohort. Likewise, disclosing the volume of purchases and retention rates among the top 20% of customers relative to the

An Investor's View of Customer Value

The value of a firm's customer base is the sum of the value of existing and future customers. In practice, some investors now incorporate the components of customer value—along with their assumptions and projections about the future competitive and regulatory environment—into their traditional valuation models. For an interactive look at how to calculate customer value, go to bain.com/customer-value.



remaining 80% would materially improve investors' ability to value a company's customer base. Many companies may consider this information proprietary, but it is so important to corporate valuation that I believe investors should have it. (For more on customer cohorts, see Daniel McCarthy and Peter Fader's article "How to Value a Company by Analyzing Its Customers,"(HBR, January–February 2020.)

Qualitative measures such as Net Promoter and customer satisfaction scores are also of use to investors in assessing customer loyalty. Companies should source such measures from independent third parties that publish their methodology and present them in consistent formats. Short of that, firms should provide auditable evidence that their metrics are accurate and can be reliably compared with metrics reported by other companies.

Managing for Customer Value

Disclosure is an essential element in bringing customer value to center stage, but what generates the outcomes to be reported on? Let's turn now to the four strategies used inside a company to achieve consistent and sustained growth in customer value.

1. Develop robust customer-value management processes and tools. To engage employees in the work ahead and to sell investors on the necessary investments, leadership first needs a clear understanding of the size of the prize: the current total lifetime value of the customer base and the potential financial value that lies in increasing customer loyalty. New accounting tools and technologies enable managers to model customer value and report regularly on the impact of their actions. (Providing tools will typically be the responsibility of the finance organization.)

For example, to improve the loyalty and profitability of new customers, managers need periodic reports on the performance of each new-customer cohort. How much did it cost to acquire new customers in each cohort? What percent of customers in each remains active? How frequent are their purchases? How much does it cost to serve them? What is the revenue per customer? By comparing the performance of different cohorts, managers can monitor real-time improvements or declines in lifetime value.

Managers can also use analytics and reporting to track how experiments and changes in products, pricing, customer policies, processes, promotions, and services affect each cohort's performance over time. Using time-series analytics, for example, they can monitor customers who have been exposed to specific initiatives—say, a service personalization effort—to determine how that experience will affect lifetime value. Operational measures, such as the number of abandoned calls or the first-time success rate in a digital self-service experience, can be combined with qualitative data, such as customer feedback scores and comments, to sharpen the picture.

This just scratches the surface, of course, but it conveys the type of robust analytics and reporting managers could have at their disposal to compete for customer loyalty.

2. Combine design thinking with loyalty-earning technologies. Companies earn loyalty when they anticipate and meet fundamental, often unexpressed, customer needs. Doing this depends on two sets of capabilities: design thinking and careful application of cutting-edge technologies.

Design thinking is about seeing the world through customers' eyes and learning through direct observation. Managers, frontline employees, and even C-level executives should engage in the exploration and design process. Design thinking combined with a constant flow of customer feedback helps product groups create highly personalized offerings. It also informs loyalty-driven sales and marketing efforts. Messaging can be tailored and targeted to put the right offering in front of the right customer in the right way at the right moment. The goal is not simply to induce customers to buy. It is to improve their lives so effectively that the company earns their trust and continued business.

Data, analytics, and AI capabilities are key to human-centered design. Consider how an insurance company might use AI to enrich service interactions. A customer, Mary, calls with a question related to a recent claim. Before she even speaks to a live rep, the AI-enhanced routing system predicts what her need is on the basis of her profile data, latest mobile and web interactions, and recent purchases. The system uses this context to route Mary not to the next available agent but to the one whose interaction style and technical proficiency are best suited to the issue at hand. Once the call is connected, an AI-enabled coaching system analyzes Mary's tone of voice and rate of speech during the call and provides guidance to the agent in real time about ways to improve her experience. Instead of trying to prevent customers from ever reaching a live human—so often the default cost-cutting strategy—such systems focus on speeding calls to the right human.

Examples of such intelligent personalization are growing in number and variety. The best of them share a focus on using technology to enhance the customer experience, which often also reduces the company's delivery cost. Beginning in the early 2000s, companies such as Amazon, Netflix, and Google have given us a taste of what the future could bring. The question today is not whether to make investments in data and technology but how best to leverage those that have been made. Big companies often face complex legacy IT system and data challenges that digital-native firms do not, but they also have a significant advantage: They typically have amassed vast customer databases over decades and have the resources to take full advantage of them, including by conducting many simultaneous customer experiments that can speed innovation.

3. Organize around customer needs. Rich customer-value data and design-thinking practices will remain locked in silos unless companies embrace new operating models that push decision-making down to frontline employees, reduce cross-functional friction, and focus the organization on customers.

Since the early 1900s, large companies have employed operating models built around functional and product expertise and accountability. Finance, legal, marketing, sales, operations, compliance, and other functional departments or product teams form the "strong arms" of the company matrix, generally controlling resource allocation, goal setting, and decision-making. This structure fosters localized accountability, expertise, and efficiency, all of which are critical for competitive performance. However, the model also gives rise to silos, each of which seeks to optimize its own performance. Even when functional goals are more or less aligned, in-group bias—the tendency to favor one's own group and view others with suspicion—leads to conflicts among silos and even among members of a team drawn from different silos.

Consider how this played out at one large logistics company, where a cross-functional initiative to tackle the problem of shipping damage—a big cost for the company and perhaps the largest frustration for customers—foundered in a sea of misalignment and noncooperation. The issue appeared to be simple: Large, heavy packages often crushed smaller ones in the company's trucks. But the sales department, with an eye toward meeting or exceeding its targets, refused to stop accepting orders for large packages or to charge more for them. The shipping department, mindful of its cost goals, resisted setting up a separate handling process for large items. Customer service, to minimize costly time on the phone taking claims, made it more difficult to reach reps to file a complaint. And risk managers did

New accounting tools and technologies enable managers to model customer value and report on the impact of their actions.

their best to cut payouts by rejecting most claims and reducing payment on claims that were accepted. Each department aggressively managed its own metrics. The results were impressive: Shipping costs were kept in line, revenue grew, phone center costs held steady, and damage payouts went down. Each functional team celebrated its wins. It seemed that only the customers lost.

Instead of fighting or ignoring in-group bias, some companies now harness it for the benefit of customers by aligning cross-functional teams around a specific customer need. Although members are drawn from different functions, they are fully dedicated to the team, with authority for decision-making and accountability for outcomes. Many digital-native firms, such as Warby Parker and Stitch Fix, are organized around teams whose "products" are better described as customer experiences, including try-on programs in which eyeglass frame options or personalized clothing selections are shipped to customers' homes for consideration. No purchase is required, and easy returns are guaranteed. The teams are composed of representatives from each discipline necessary to deliver the experience—IT, marketing, fulfillment, and finance, for example—and each team focuses on meeting a defined need. Team members, whatever their functional provenance, view addressing the customer need as their primary goal, with individual performance measured and rewarded through their contributions to the team's results.

Legacy businesses are now following suit. Consider the insurer and bank USAA. It historically assigned separate product groups to manage its various offerings. For example, when a customer purchased a car, one group would help secure financing while another helped with insurance. The process worked, but USAA's leaders believed the company could do a lot better. Following the digital natives' lead, USAA now organizes around customers, with employees from different product lines and functional groups working as a team to address an overarching customer need. People seeking to buy a car can choose and locate the best model, negotiate its purchase, and finance and insure it as a seamless experience. Customer-needs-based objectives sit alongside product and operational goals; success is measured across key outcomes such as customer satisfaction, loyalty, and product sales.

When teams are organized around the customer, the functional and product expertise that often worked at cross-purposes when employees were locked inside silos can act as powerful accelerants to innovation and competitiveness, particularly when backed by huge storehouses of data and the capabilities required to mine it.

Reorganizing around customer needs requires rewiring the organization and its decision-making pathways. Agile ways of working can dramatically speed up team processes, but leaders must accept that this involves letting go and allowing the frontline employees closest to the customer to make decisions that once came from the top. That can make traditional leaders uncomfortable, because it depends on experimentation, struggle, occasional failure—and relinquishing some control. But the shift is inevitable. At the current rate of transformation, I estimate that within 20 years more companies will organize around customer needs than around traditional functional models.

4. Lead for loyalty. The job of leadership in any major organizational shift is to articulate an inspiring vision, lay out a path, and engage every employee in the work ahead. The first thing leaders must do is get everybody on board. Building the case for customer value should be easy: When a company focuses on loyalty, it makes customers' lives so much better that they keep coming back, and they bring their friends. Employees become inspired by the satisfaction that comes from making customers' lives better. And don't forget the superior performance of the companies that lead their industries in Net Promoter Score or satisfaction. Their revenue growth and shareholder returns far surpass those of their peers. Companies that don't pursue customer value risk being put out of business by those that do.

Loyalty leadership demands persistent attention. Although the new customer focus is in part about pushing decision-making down the ranks, that doesn't mean that leadership focus can be fleeting or insincere. Look at the case of Telstra, an Australian telecommunications company. CEO David Thodey recognized that providing a far better customer experience was necessary for achieving and sustaining growth. He set out a clear vision for the company and its employees: Telstra would lead its industry in customer advocacy as gauged by Net Promoter Scores. He declared

that customers would be his top priority. He demonstrated his commitment by beginning every business-unit review meeting with a discussion of progress on customer advocacy. He regularly made calls to customers. He insisted that his own leadership team devote time in standing meetings to knocking down barriers to delivering a great customer experience. He supported changes in policies and pricing to improve the customer experience, often at the expense of short-term business performance.

Thodey couldn't have done this without support from Telstra's investors. He worked hard from day one to educate them about the company's efforts to strengthen customer relationships, and they supported him. During his six years leading Telstra, the company improved customer loyalty in every major product, customer segment, service process, and point of contact with customers. It gained 10 points of market share in the lucrative mobile business, and its stock price increased by more than 70%. Yet soon after Thodey departed, customers figured less prominently in Telstra's strategy. Competitive pressures forced the company to focus on improving its cost position rather than continuing to invest more in initiatives that had earned customers' trust. Since Thodey's retirement, in 2015, Telstra has slipped to the middle of the industry loyalty rankings.

As Telstra's experience shows, loyalty leadership requires ongoing attention to the actions of employees across the organization—changing decision criteria, supporting policy changes, and celebrating customer loyalty wins. This signals commitment to customers and gives employees confidence that the loyalty strategy is not an empty promise.

Loyalty leadership also calls for managing up and out. Top managers must gain and maintain the support of board members and investors by educating them about the loyalty-based strategy and how its progress should be evaluated. This is particularly important early in a customer value transformation, because management will be making decisions (such as investing in technology) that may depress short-term earnings. Leaders need to demonstrate to investors and board members that those decisions will yield larger payoffs down the road, in the form of increased customer acquisition or retention, growing revenues, lower cost to serve, or other measures of improved customer value.

IT'S EASY TO blame companies' short-termism on shareholder pressure and a bias toward quarterly financial reporting. But managers share the blame when they fail to educate investors about the customer value their company creates or when they resort to quick profits instead of investing in long-term customer loyalty. Several iconic founder-led companies have paved the way for decades. A handful of independent public companies are doing so too. And they deliver outsize growth, profitability, and returns to shareholders.

It would be irresponsible for any leader to ignore such a proven source of profitable growth. Boards and shareholders should demand that companies grow customer value, support the necessary investments, and push for new accounting standards that make the returns on these investments visible. All stakeholders will benefit: Customers will experience products and services that make their lives easier, richer, and more enjoyable. Employees will reap the benefits of making customers' lives better. Management and investors will see increasing profits and shareholder value. And society will enjoy the economic growth that derives from innovation and investment. With transparency and reliable disclosure, investors and management teams can strike at the heart of short-termism and run their businesses for sustainable value.

HBR Reprint S20011
Spotlight Package Reprint R2001B

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Quick Takes

WE ARE/GETTY IMAGES

1. Why Great Innovation Needs Great Marketing

→ by DENISE LEE YOHN

INNOVATION IS A top priority for almost every organization. But to achieve success through innovation, companies must put as much energy and investment into marketing new offerings as they do into generating them.

The role of marketing in some companies seems to have diminished in recent years, with the growth of artificial intelligence–driven algorithms and predictive analytics that offer up information, goods, and services to customers. The popularity of private-label goods and products from companies like Brandless and others that eschew marketing also seems to make the argument for less marketing, rather than more.

Marketing is, but should not be, executed merely through tactical functions of acquiring and retaining customers, as many companies practice it today. The search, content, and loyalty campaigns that most managers call marketing these days are common downstream tactics for generating or maintaining awareness or repeat purchase; the full business-growing power of the marketing function comes way upstream—from creating markets. Understanding people's fundamental needs and drivers, identifying customers, and developing the entire go-to-market and usage ecosystem are the essential aspects of marketing—the success of innovations, especially breakthrough ones, hinge upon them. Marketers need to be included in development discussions earlier in the innovation process.

Consider what happened when a revolutionary product—Google Glass—was launched without the full power of marketing. These smart glasses were a stunning technological advancement—which ultimately failed. Among its missteps, Google didn't identify the burning consumer needs that would drive Glass adoption. It needed to know the "can't live without it" use cases that would motivate people to overlook or work around the product's early shortcomings. Plus, the product was initially sold only to Glass Explorers, a group mainly composed of tech geeks and journalists who were important in the industry but not the aspirational role models mainstream consumers wanted to mimic. The company failed to create a robust and durable market for the product and discontinued it less than two years after its launch.

Strategic, upstream marketing that is incorporated into the innovation development process can clearly define whom to sell the new offering to and how to sell it in these ways:

Identify unmet and even unknown customer needs. Oftentimes, people don't know they need a new-to-

Marketing might help identify entirely new or different customers for innovation teams to consider.

the-world innovation—and sometimes they have been settling for a workaround or poor substitute for so long that they don't realize an alternative is possible. Before the smartphone, for example, people thought nothing of having to wait to use their computer to access the internet and use email. The marketing disciplines of anthropologically based research and needs-based segmentation uncover the most significant holes in people's lives that new products can fill. So instead of making assumptions about potential customers and their needs, marketing might help identify entirely new or different customers for innovation teams to consider.

Understand the deep-seated drivers of perceptions and behavior that are relevant to a product's appeal. A robust marketing trend analysis reveals the cultural, social, and psychological dynamics that should be addressed in the development of and communication about an innovative product. For example, the adoption of virtual reality (VR) has been much slower than technologists expected it to be for many reasons, not the least of which is the design of existing headsets. They're big and clunky—not something mainstream users want to wear often. A greater emphasis on the marketability of VR products, instead of their capabilities and content, could focus VR innovators on improvements that would make their products more appealing.

Engage with customers through use cases and benefits instead of functionalities and features. If an innovation is truly breakthrough, people need to be educated on how and why to use it—particularly mainstream customers who are compelled less by what a product does and more by what the product helps them do. Marketing helps companies address this through (1) customer research, which tests the appeal of various use cases and often uncovers new ones; (2) insight development, which explores beyond the functional benefits of use to identify the higher-order, more valuable ones; and (3) positioning work and communications framing, which determines how best to convey those uses and benefits to customers compellingly.

Develop the entire customer experience ecosystem. Innovators usually become so wrapped up in what they're developing that they overlook all the other elements necessary to make delivery and experience of the offering successful. Take the first e-reader to be developed: the Sony Reader. The product was technologically advanced, but it failed because Sony didn't enlist the book publishing industry as a partner to provide the content the hardware required. Sony hadn't tapped the customer and customer-experience orientation inherent in marketing to ensure the ecosystem around its product would be as well developed and designed as the product itself. When Amazon later launched its Kindle device, it offered an integrated experience of hardware, software, service, and content that made it seamless for the customer to buy and use it—thus producing a successful launch.

Use a go-to-market strategy appropriate for the innovation and its customer. The lackluster performance of the Sony Reader also resulted from the company's misguided channel strategy. Sony tried to sell the device through traditional consumer electronics stores such as big-box technology retailers instead of channels that book readers naturally use. Marketers know the importance of attending to all "4 P's": price, place, promotion, and product.

Another example of integrated marketing and innovation is the story of the K-Cup coffee pod from Keurig. One of the K-Cup inventors, John Sylvan, was motivated to solve a common problem: the stale, bitter sludge that coffee becomes after sitting in a pot in the office breakroom all day. People had been tolerating the problem for years. But Sylvan understood that there must be a solution and, after he and Keurig cofounder Peter Dragone developed one, they convinced office managers, their wisely chosen target market, of the possibility, too.

Sylvan and Dragone also were keyed into people's emotional connections to coffee enough to recognize that coffee preferences varied significantly by region and that local roasters had locked in loyal customers. So they enrolled regionally known coffee roasters such as Green Mountain Coffee Roasters, Diedrich Coffee, and Tully's to provide the coffee for the K-Cups. By appealing to different customers' flavor preferences, they not only tapped into

the broader context of coffee culture but also increased the perceived value of coffee made a single cup at a time.

They pitched their machines to corporate accounts on the benefit of saving costs (money on the coffee itself as well as the loss of productivity of employees leaving the office to get a fresh cup from the local coffee store). Keurig developed partnerships with other players in the K-Cup product world, enrolling existing local distributors to install machines and subsequently entering into distribution deals for its K-Cups with coffee retailers Dunkin' Donuts and Starbucks. It is also developing more eco-friendly products. These kinds of strategies help get innovative products in front of the right customers at the right time.

Today's advanced innovations such as 3D printing, bitcoin, and virtual reality have gotten some traction, but they and similar revolutionary products and platforms need the right marketing expertise to generate the depth and breadth of market engagement they seek. Innovation alone may be enough to initiate the adoption life cycle, but marketing remains the bridge necessary to cross the chasm between early adopters to the wider group of people who will form a viable, valuable customer base.

The bigger the innovation, the bigger the risk of failure. Because marketing can reduce those risks, it matters as much as innovation—perhaps even more.

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JW LTD/GETTY IMAGES

2. The Science of Sensory Marketing

New research suggests that many industries are missing opportunities to connect with customers' senses.

→ by *HARVARD BUSINESS REVIEW* STAFF

FOR TWO DECADES marketers in a variety of industries have been building expertise in reaching consumers through the five senses—learning to deploy cues, such as the sting from a swig of mouthwash and the scritch-scratch sound of a Sharpie pen, that can intensify perceptions of brands. The past year has brought a rush of interest in the subject among academics. New research suggests that we're about to enter an era in which many more consumer products companies will take advantage of sense-based marketing.

Many companies are just starting to recognize how strongly the senses affect the deepest parts of our brains.

Much of the new research centers on "embodied cognition"—the idea that without our conscious awareness, our bodily sensations help determine the decisions we make. For example, people who had briefly held a warm beverage were more likely than people who had held a cold one to think that a stranger was friendly; this was demonstrated in an experiment by Lawrence E. Williams, of the University of Colorado at Boulder, and John A. Bargh, of Yale. And warm ambient temperatures prompted people to conform to a crowd, a finding of researchers led by Xun (Irene) Huang, of Sun Yat-sen University (see the exhibit at right).

Marketing researchers are "starting to realize how powerful the responses to nonconscious stimuli can be," says S. Adam Brasel, an associate professor of marketing at Boston College. Work on embodied cognition has begun "blowing up on the academic side," he adds. At the 2014 Association for Consumer Research's North American conference, Brasel heard more papers on sensory research presented than at any previous conference. That same year the *Journal of Consumer Psychology* published a special issue on embodiment and sensory perception, with a focus on how sensory inputs can drive consumer behavior.

Aradhna Krishna directs the Sensory Marketing Laboratory at the University of Michigan and is considered the foremost expert in the field. She says that many companies are just starting to recognize how strongly the senses affect the deepest parts of our brains. The author of the 2013 book *Customer Sense: How the 5 Senses Influence Buying Behavior,* Krishna got into the field because she was fascinated by certain questions: Why does wine taste better in a wine glass than in a water glass? Why is an ad showing a piece of cake more engaging when the fork is placed to the right of the cake? Why does the smell of cinnamon make a heating pad seem to work better? Krishna realized that the senses amplify one another when they are congruent in some way. Because cinnamon suggests warmth, it can enhance a heating pad's appeal and apparent effectiveness. Such influences are subtle—and that's exactly why they are so powerful. Consumers don't perceive them as marketing messages and therefore don't react with the usual resistance to ads and other promotions.

Thinking about sensory effects is an established practice in some consumer industries, such as food, cosmetics, and hospitality. For example, Hershey's has long been aware that the tactile pleasure people get from unwrapping the foil around a Kiss transforms an ordinary piece of chocolate into a special experience. But many companies are taking their thinking much further. Consider this campaign by Dunkin' Donuts in South Korea: When a company jingle played on municipal buses, an atomizer released a coffee aroma. The campaign increased visits to Dunkin' Donuts outlets near bus stops by 16% and sales at those outlets by 29%. Another example is Olay Regenerist thermal facial products, which are engineered to generate heat upon application (although heat isn't necessary to their functioning) to signal that they are working.

Automakers have paid close attention to the senses for years: Designers work hard to optimize the feel of knobs, the solid noise of a door shutting, and the distinctive new-car smell. Recently they have turned to advanced technologies. For instance, in its 2014 M5 model, BMW mikes and amps the engine sounds through the car speakers, even when the audio system

Warmth Induces People to Conform

Research participants in a warm room (versus a cool but not uncomfortable one) reported feeling closer to the people around them, and they were more likely to:

- Say they would buy the TV remote preferred by most of the other participants
- Match their stock price predictions to those of previous participants
- Bet on the "favorite" in a hypothetical horse race

Source: "Warmth and Conformity: The Effects of Ambient Temperature on Product Preferences and Financial Decisions," by Xun (Irene) Huang, Meng Zhang, Michael K. Hui, and Robert S. Wyer Jr.

In wide swaths of consumer industries, companies remain focused solely on visual attributes—product developers and marketers need to change that.

is turned off. The idea is to enhance the car's sporty feel.

Still, in wide swaths of consumer industries, companies remain focused solely on visual attributes and give little thought to other sensory effects. Product developers and marketers need to change that, Krishna says. Bank executives should make sure that branch offices exude the reassuring, wealth-suggesting aromas of wood and leather. Manufacturers of products with embedded motors should think about those products' sounds—are they tinny whines or solid, low-pitched hums? Luxury clothing manufacturers doing business online should consider what message is conveyed when goods are shipped in bubble wrap versus high-quality crinkly paper.

For managers looking to learn about sensory stimuli, the new academic work reveals striking instances of senses' affecting attitude, mood, and even memory more profoundly than words ever could. An experiment Krishna conducted with May O. Lwin, of Singapore's Nanyang Technological University, and Maureen Morrin, then of Rutgers University, is just one example. The three found that imbuing pencils with the unusual scent of tea tree oil dramatically increased research subjects' ability to remember the pencils' brand and other details. Whereas those given unscented pencils experienced a 73% decline in the information they could recall two weeks later, subjects given tea-tree-scented pencils experienced a decline of only 8%.

"In the past, communications with customers were essentially monologues—companies just talked at consumers," Krishna says. "Then they evolved into dialogues, with customers providing feedback. Now they're becoming multidimensional conversations, with products finding their own voices and consumers responding viscerally and subconsciously to them."

Such conversations, she emphasizes, should be at the center of product innovation and marketing for many brands. Every consumer company should be thinking about design in a holistic way, using the senses to help create and intensify brand personalities that consumers will cherish and remember.

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"Taking Sensory Communication to a Whole New Level"

Chuck Jones is the chief design and R&D officer at Newell Rubbermaid, a 112-year-old maker of tools, pens, and other products. He spoke with HBR about the company's new emphasis on sensory marketing and design. Edited excerpts follow.

Why is Newell Rubbermaid investing in sensory inputs? The field is evolving quickly, and our corporate growth game plan, which focuses broadly on design, positions us to take advantage of the latest research. Last year we opened a design center next to Western Michigan University and staffed it with physiologists and also experts in perception. Someone familiar only with our past efforts would be stunned. And we've expanded our definition of human sciences research.

How so? Conventional marketing research looks at opinions. We also study unconscious behaviors and human cognitive and physical processing to extract principles that we can apply to Sharpie pens or high-performance pliers, for example.

Pliers? We're putting a lot of energy into the heft, feel, and ergonomics of cutting pliers for skilled trades. There's a similar effort in packaging.

Why packaging? Many of our fine writing instruments are given as gifts, so there's a ritual quality to opening the package. We pay close attention to the "hand," or feel, of the material; the resistance it presents (more is better, within limits); the sounds it makes; and the way the package opens, as a series of disclosures—an unveiling of the product, if you will. Our thinking about packaging takes sensory communication to a whole new level.

QI YANG/GETTY IMAGES

3. Can Biometrics Predict a Viral Marketing Campaign?

→ by JACOB L.H. JONES, MATTHEW GILLESPIE, and KELSEY LIBERT

THE DIFFERENCE BETWEEN content that goes viral and content that fails to find an audience depends on a single, critical moment: a person seeing the share button and deciding whether or not to click.

Unlocking how to predict what will happen at this moment would be akin to discovering the holy grail of marketing research. Simply asking people what kind of content they would share doesn't do a great job of anticipating actual outcomes. However, researchers can use physiological markers to measure emotional responses to content—which exist not just in the mind but also in the body—to better understand what makes someone click "share."

In a recent study, people were shown a mix of popular and unpopular content. We asked participants the usual follow-up questions, such as: "Were you engaged in this content" and "Do you think you would share this?" and so on. By recording an electrophysiological signal called galvanic skin response (GSR)—a response that is constantly changing in an individual, though rarely noticed—during the study, we were able to predict the viral outcome of a piece of content significantly better than was possible via any of the usual survey measures.

Can We Anticipate Viral Content Before It Goes Live?

What we know for certain is that people are at the heart of viral outcomes (unless you are leveraging bots or other automated methods to drive traffic, in which case, we can't help you). From previous marketing research, we know that the emotions evoked in readers are critical to the likelihood that a piece of content will go viral, and that people are more likely to share highly arousing content. These findings are important, but how can you test whether content will go viral without subjecting it to the scrutiny of the internet?

Typically, predictions around how content will perform are formulated using a combination of content topic analysis and self-report of measures such as "likelihood to share." We decided to extend these metrics to include a known physiological measure, GSR, to see whether there was predictive value in how the body itself responded to pieces of our own agency's content that had highly variable success in the field.

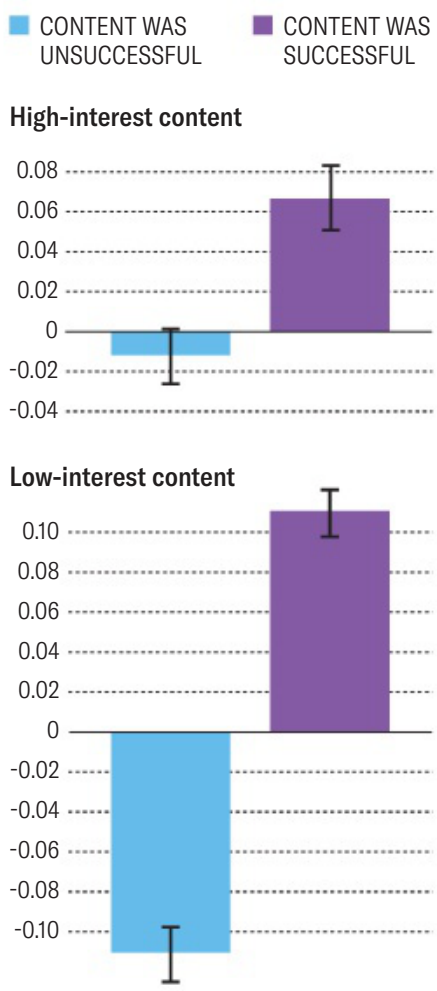
Why GSR? Electrophysiology measures have been around for a long time, but the technical and economic barriers to using them in marketing research were fairly high until recently. The average marketer was skeptical of their utility, particularly since these costly types of methods had not been definitively shown to produce a clear advantage over cheaper, more-accessible behavioral methods. Over time, prices have decreased, and though these devices still require a strong technical understanding, they are not as difficult to use as they once were. GSR, which measures the skin's resistance to a very mild electrical current, has been demonstrated to be a strong predictor of emotional arousal, and emotional arousal is known to be a crucial ingredient for viral content.

Getting people to self-report their emotional arousal has long been an attractive option for researchers: These surveys are cheap and make it easy to collect data from a large group of people. However, there are several limitations to self-reported data. Telescoping, selective memory, and the availability heuristic are just three of the dozens of ways certain participants

Factors such as how much participants enjoyed the content and how likely they were to share it personally did not correlate with how likely the content was to go viral.

Skin Response to Viral Content Categorized by Participants' Self-Reported Interest

Galvanic skin response is a technique that measures emotional arousal based on the skin's resistance to electricity. It was able to predict which content eventually went viral regardless of whether or not a study participant found the topic interesting.



Note: Microsiemens are a unit measuring electrical conductance.
Source: Fractl

can obscure the results of your study. Not to mention the "bot crisis"—large-scale corruption of data validity from participants either not paying attention as they complete surveys or leveraging bots to auto-complete surveys with fake data—which has plagued the online platforms that marketers and academics use to recruit participants.

In general, people are just pretty bad at knowing how they feel and why they feel that way. Just look into the misattribution effect for proof. People constantly misinterpret their physiological state to the emotional context they find themselves in. This effect explains why you may think a fear response is actually sexual attraction or why a rainy day might make your bad mood worse. It is also why drinking coffee or watching horror movies makes a great date.

In our study, we examined content from 15 highly successful Fractl content marketing campaigns (average social shares = 21,358.07) and 15 of our low-performing campaigns (average social shares = 11.07). We compiled the graphics most prominently featured in the publisher coverage earned by each campaign and showed them to 22 participants. We used only the most prominently featured assets for two reasons. First, this allowed us to include a wider variety of stimuli in the study; if we used entire projects with several images each, the number of campaigns sampled would need to be much smaller. Second, because of where these graphics were placed, they were the ones readers were most likely to view or share.

Before coming into the lab, participants were given a qualifying/demographic survey. In addition, we collected self-reported interest in all the content verticals we explored (such as sports data, political data, health and wellness data, workplace data, and so forth). We used a Shimmer GSR unit to gather GSR data.

After viewing each image, participants filled out a brief survey where they reported their levels of interest, enjoyment, surprise, and understanding of the content. We also asked how likely participants were to share each image and how engaging they found each image overall. Participants rated almost every qualifier on a 5-point Likert—a scale with an odd number of answer anchors that allows researchers to assess the attitudes of participants (for example, a five-star rating system for businesses). The question regarding how engaging the content was to them was rated on a dichotomous 9-point scale—a scale that ranges from one adjective to its polar opposite (for example, 1 for "extremely boring" to 9 for "extremely engaging").

Our hypotheses were as follows:

1. The content in the highly viral group will elicit more emotional arousal in our participants, leading to greater electrodermal activity.
2. Participants' electrodermal activity will be more predictive of viral outcomes if they had previously expressed interest in that content vertical.
3. The behavioral survey methods will be less predictive of viral outcomes than the biometrics.

What we found was that there was a significant difference between the high and low viral content for phasic GSR (the portion of the data that corresponds directly to a participant's response to a stimulus).

This effect was not reduced by whether participants reported being interested in a given piece of content: Both "low interest" and "high interest" items showed the same GSR pattern. There was no significant difference

in the predictive ability of participants' GSR if they were interested in the content vertical or not.

In plain English, this means that whether or not someone actually told us they were interested in a type of content, their body's response still predicted how that piece of content eventually performed on the internet.

WE ALSO FOUND that participants' self-reported data—typically a cornerstone of marketing research—was not able to predict which content was eventually successful. There was no significant difference between the high-viral and low-viral content in terms of how participants rated their understanding, how likely they would be to share it, how surprising they found it, how much they enjoyed it, and how engaging they found it.

Can Virality Be Predicted?

The more viral a campaign was, the greater GSR our participants had while viewing it. This held true regardless of self-reported interest in the campaign vertical; in fact, all our self-reported metrics were much less useful than GSR. Factors such as how well our participants understood the content, how much they enjoyed it, how surprised they were by it, how likely they were to share it personally, or how engaging they found it did not correlate with how likely the content was to go viral.

The intersection of electrophysiology measures and marketing is a new and exciting field. Introducing biometrics such as GSR, eye tracking, and EEG (electroencephalogram) to a market research repertoire may yield insights previously unattainable to marketers. Although we still cannot perfectly predict what makes content go viral online, neurometrics help us get a clearer view into the minds of digital content consumers.

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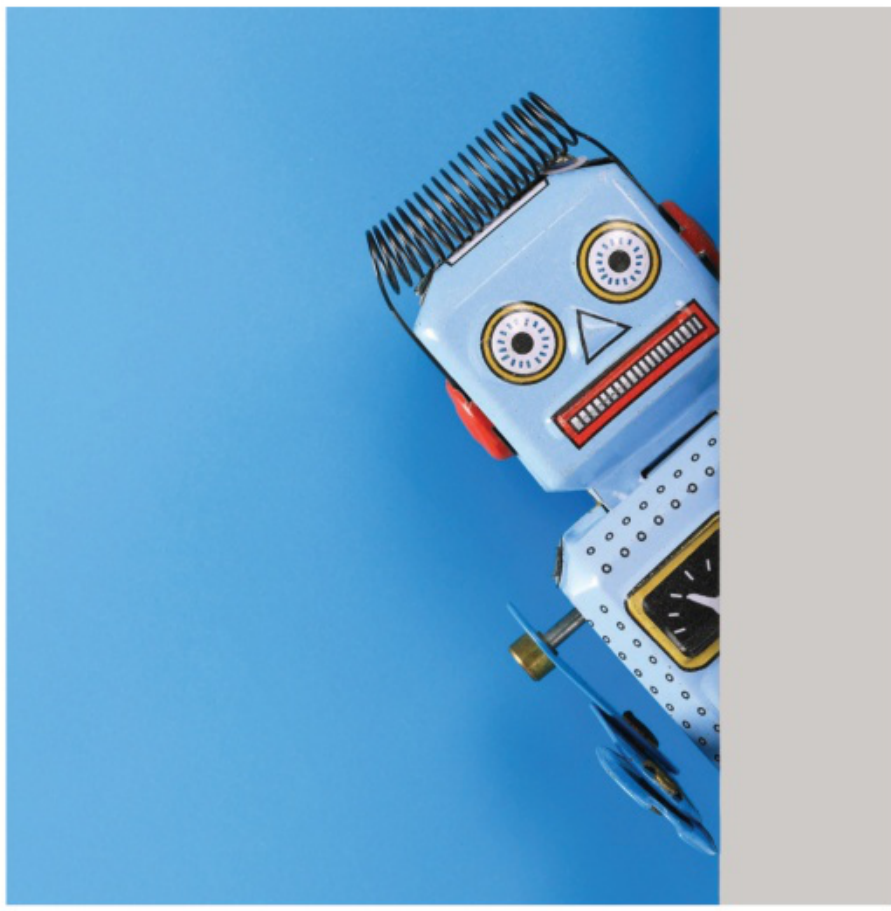

SHUTTER_M/GETTY IMAGES

4. Are Customers Lying to Your Chatbot?

→ by ALAIN COHN

IMAGINE YOU JUST placed an online order from Amazon. What's to stop you from claiming that the delivery never arrived and asking for a refund—even if it actually arrived as promised? Or say you just bought a new phone and immediately dropped it, cracking the screen. You submit a replacement request, and the automated system asks if the product arrived broken or if the damage is your fault. What do you say?

Dishonesty is far from a new phenomenon. But as chatbots, online forms, and other digital interfaces grow more and more common across a wide range of customer service applications, bending the truth to save a buck has become easier than ever. How can companies encourage their customers

Digital tools clearly make cheating a lot more prevalent, and there's no obvious quick fix.

to be honest while still reaping the benefits of automated tools?

To explore this question, my coauthors and I conducted two simple experiments that allowed us to measure honest behavior in an unobtrusive way. First, a researcher asked participants to flip a coin 10 times and told them they'd get a cash prize depending on the results. We had some participants report their coin-flip outcomes to the researcher via video call or chat, while others reported their outcomes via an online form or voice assistant bot. They flipped the coins in private, so there was no way to know if any individual participant lied, but we were able to estimate the cheating rate for a group of participants (since overall, only 50% of the coin flips should be successful).

What did we find? On average, when participants reported to a human, they reported 54.5% successful coin flips, corresponding to an estimated cheating rate of 9%. In contrast, when they reported to a machine, they cheated 22% of the time. In other words, a bit of cheating is to be expected regardless—but our participants were more than twice as likely to cheat when talking to a digital system than when talking to a human. We also found that blatant cheating, which we defined as reporting an implausibly high success rate of nine or 10 successful coin flips, was more than three times more common when reporting to a machine than to a human.

Next, we determined through a follow-up survey that the main psychological mechanism driving this effect was participants' level of concern for their personal reputations. We asked a series of questions designed to measure participants' concern about how the researcher viewed them, and we found that those who had reported their coin flips to a machine felt a lot less close to the researcher and as a result were a lot less concerned about their personal reputations than those who reported to the researcher. As such, we hypothesized that anthropomorphizing the digital reporting system (in our case, by giving it a human voice rather than a text-only interface) might make it feel more human, and thus make the participants more worried about maintaining their reputations and less likely to lie. However, we found that participants still cheated just as much, suggesting that if people know they are interacting with a machine, giving that machine human features is unlikely to make much of a difference.

To be sure, advances in convincingly human-like AI systems could possibly make this a more effective strategy in the future. But for now, digital tools clearly make cheating a lot more prevalent, and there's no obvious quick fix.

The good news is, our second experiment did identify a strategy that can help companies address this issue: While there's no eliminating dishonesty, it is possible to predict who is more likely to lie to a robot and then push those users to use a human communication channel instead.

In this experiment, we first assessed participants' general tendency to cheat by asking them to flip a coin 10 times and report the results via an online form, and then categorized them accordingly as "likely cheaters" and "likely truth-tellers." In the next part of the experiment, we offered them the choice between reporting their coin flips to a human or via an online form. Overall, roughly half of the participants preferred a human and half preferred the online form—but when we took a closer look, we found that "likely cheaters" were significantly more likely to choose the online form, while "likely truth-tellers" preferred to report to a human. This suggests that people who are more likely to cheat proactively try to avoid situations in which they have to do so to a person (rather than to a machine), presumably due to a conscious or subconscious awareness that lying to a human would be more psychologically unpleasant.

Thus, if dishonest people tend to self-select into digital communication channels, this could offer an avenue to better detect and reduce fraud. Specifically, collecting data on whether customers are opting to use virtual rather than human communication channels could complement companies' existing efforts to identify users who are more likely to cheat, enabling these organizations to focus their fraud detection resources more effectively. Of course, customers may figure out what companies are doing and try to game the system by choosing to speak with a real agent, thus avoiding being flagged as higher risk—but this is really a win-win, since according to our research, they'll be much more likely to behave honestly if they talk to a human.

Ultimately, there's no cure for digital dishonesty.

After all, lying to a robot just doesn't feel as bad as lying to a real human's face. People are wired to protect their reputations, and machines fundamentally don't pose the same reputational threat as humans do. But with a better understanding of the psychology that makes people more or less likely to lie, organizations can build systems that can identify likely cases of cheating, and ideally nudge people to be more honest.

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5. The Marketing Message That Works with Republicans but Not Democrats

→ by DAVID DUBOIS, JEEHYE CHRISTINE KIM, and BRIAN PARK

LUXURY GOODS ARE instrumental to status signaling—our hope that people will recognize the insignia on a suitcase or the stitching on a pair of jeans, and see us in a certain way.

For the $262 billion luxury market, tapping into consumers' fundamental need for respect or admiration from others is a powerful tool. It's no accident that a brand such as Audi invites you to "update your status" by buying its cars. Or that Aston Martin will bring "value to your life." Other luxury brands encourage you to think about your status as an asset and speak to your desire to maintain your status as it is. Rolex reminds you, for instance, that class is forever.

For hundreds of years, the luxury, fashion, and high-end industries have used these techniques to attract buyers, taking advantage of people's desire to be at the top of the hierarchy. Since political views are also shaped by our assumptions about hierarchies, we wondered whether these two things—political beliefs and preference for luxury goods—would go together.

To explore this, we conducted research around a simple but critical question:

Does political ideology affect the preference for luxury goods, and if so, how?

According to our findings, published in the *Journal of Marketing,* political allegiances systematically predict consumers' desire for luxury consumption, particularly for conservatives. We attribute this to conservatives' greater desire to preserve socioeconomic order and maintain existing social hierarchies.

Across a range of studies, including analyses of real-world data drawn from thousands of car buyers, we found that conservative shoppers are more likely to buy luxury goods when they believe the purchase will help them preserve—but not necessarily advance—their status.

In other words, conservatives don't buy the Rolex or the Patek Philippe to advance their social standing but rather to maintain or conserve their social standing.

Studying Republicans and Democrats

We first aimed to establish a baseline link between political orientation and a greater or lesser desire for luxury goods.

We sifted actual car purchase data from 21,999 consumers in 50 U.S. states between October 2011 and September 2012. In addition to the car brand and model purchased, the data included car buyers' political beliefs. (In this study, participants were asked to reveal their party identification; we limited our sample to people who chose either Republican or Democrat and excluded people who chose Libertarian, Independent, and so on. In other studies, we used established surveys for assessing liberal or conservative orientation.) Finally, we also had information on their social status, which we measured as a joint product of their income and education.

Our analyses revealed a strong difference among high-status consumers, but not low-status. Republicans with high social status were 9.8% more likely than high-status Democrats to buy a luxury car. Put differently, whereas high-status Democrats spent $29,022 on average on their car, their similarly wealthy Republican counterparts spent $33,216. For luxury-car sellers, that meant a median difference of a 14.45% increase in sales to conservative customers.

Assuming that most people purchase luxury items to signal their social status to others, we further explored the difference between Republicans and Democrats. We wondered whether different political ideologies would unequally activate two distinct goals tied to the pursuit of status: the desire to maintain one's status and the desire to advance their social standing vis-à-vis others. We predicted that because of conservatives' proclivity for the status quo, they would desire luxury more when seeking status maintenance, but not status advancement. This would also explain why, among high-status consumers, Republicans purchased more luxury cars than Democrats.

To test this possibility, we randomly showed 403 participants (on Amazon's Mechanical Turk survey platform) one of three advertisements for the same eyewear product as part of an online survey. The first ad carefully avoided any status-related association: *Eyewear for everyone.* The second ad was a call to maintain their social status: *Keep your status with status.* And the third was an imperative to advance their social standing: *Update your status with status.* (A pretest confirmed that each of these ads successfully activated the target status goal.)

Consistent with past work, across all participants

Credit: David Dubois, Jeehye Christine Kim, and Brian Park

the willingness to pay for the eyewear in the ad was greater in the status-maintenance and the status-advancement conditions than in the no-status positioning. Novel to our work, and unique to the group of Republicans, these consumers were much more drawn to the product

Political allegiances systematically predict consumers' desire for luxury consumption, particularly for conservatives.

emphasizing status maintenance than the ones emphasizing status advancement or lacking status focus.

Building on these findings, we next asked another 300 participants how much they would be willing to pay for a set of luxury headphones, after collecting their political ideology and momentarily activating status maintenance or status advancement through a short writing task.

After status maintenance was momentarily activated, consumers who identified as strong conservatives were willing to pay, on average, $109.80 for the headphones. By comparison, the desire for the headphones was 83% lower after status advancement was activated among consumers with strong conservative beliefs, amounting to a willingness to pay $59.90. As another comparison, consumers' willingness to pay among consumers of weak conservative beliefs (that is, strongly Democrats) was just $65.10—a stark difference of 65%—compared with the Republicans' average of $109.80.

In other words, the dominant political ideology of the target market systematically affected consumers' desire for luxury products, with consumers of strong conservative beliefs being much more responsive to luxury when their status-maintenance (but not status-advancement) goal had been activated.

Implications for Luxury Brand Management and Strategic Communication

These findings have implications for luxury brand management. Establishing a causal link between political ideology, status goals, and purchasing habits yields untapped opportunities to target, segment, and market luxury goods and services to novel types of consumer groups.

Our work not only sheds light on why conservatives might be more inclined to buy the watch, the sunglasses, the car, or even the condo but also will help luxury brands identify the channels, the positioning, and the messages to nudge these consumers more effectively along the customer journey.

Indeed, the political affiliation of a target group can easily be determined along geographical lines. We all know that Texas is more conservative than, say, Massachusetts, but brands can now go to a much more granular level in their segmentation strategies. A lot of fine-grained data is readily accessible that enables brands to segment based on political ideology in databases from Gallup, Pew Research Center, and politicalmaps.org, among others.

It's also easy to assess people's political ideology from their digital footprints, such as search patterns, likes, or website visits, and from their preference for different media outlets and online platforms. Once luxury brands identify and locate a relevant target, the focus becomes positioning one's products and services accordingly.

In addition, marketers should pay attention to cues in the political or economic environment that might increase the desire to preserve status, particularly among conservative audiences. For instance, anxieties over the loss of global economic dominance in the U.S., or social threats associated with relinquishing one's social group power or prestige in some way, can activate the status-maintenance impulse. External shocks like economic turbulence can also produce a surge in interest for conspicuous consumption, in particular, beauty and appearance products—a phenomenon called the *lipstick effect*. These findings suggest that the lipstick effect may be stronger among Republicans than Democrats.

In reality, connecting political ideology and the desire for luxury goods makes perfect sense—politics and the desire for status are both historical drivers of social stratification.

HBR Reprint H04H6P

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RYANJLANE

6. Don't Underestimate the Market Power of the 50+ Crowd

→ by VAUGHAN EMSLEY

I TURNED 60 this year and just weeks later received my first piece of direct-mail advertising from a cemetery in Queens. I don't live in Queens, and when I do someday meet my demise, I have no desire to be buried there. I've been targeted with advertising for incontinence and erectile dysfunction, ailments I do not suffer from. I've also been plastered with ads for dating services, although the marketing algorithms seem to have taken a scattershot approach: I've been offered the chance to mingle with "fellow" Christian, Muslim, and Jewish singles.

None of these things could have been triggered by my search history. Instead, my age led marketers to assume that I must be desperate for companionship, struggling with health decline, and ruminating on my own death. Meanwhile, I've seen virtually no marketing for the kinds of things I'm interested in, such as great hotels in Rome or beautiful places to hike in Upstate New York.

The data suggests that I'm hardly alone. When people in this demographic are shown in ads, they're often presented in a negative light.

People older than age 50 are responsible for more than half of consumer spending in the U.S.

Portrayals of those older than 50 are negative 28% of the time, compared with only 4% of the time for younger people. Seventy percent of the time, people in this demographic are shown in "isolated situations—often seated, alone, with a partner, or with a medical professional where they were the recipients of care," the AARP reported. That is, when they're shown at all: "While 46% of the U.S. adult population is age 50-plus, only 15% of [online] images containing adults include people this age," a recent AARP study found.

This doesn't reflect the market power of people older than age 50, who are responsible for more than half of consumer spending in the U.S. Baby Boomers, born between 1946 and 1964, shell out the most each year—more than half a trillion dollars, according to a study by Epsilon. Generation X (which includes some people older than 50) was a distant second, followed by Millennials, the Silent Generation, and Gen Z. Yet to many businesses, people older than 50 might as well be invisible. Only an estimated 5%–10% of marketing budgets are devoted to winning them over. Only 5% of advertising images of people older than 50 show them using technology, and even then it's usually a younger person teaching an older person how to use a device. In fact, for tech companies, older generations are where the growth opportunity lies: Pew Research recently reported that "there has been significant growth in tech adoption since 2012 among older generations—particularly Gen Xers and Baby Boomers." Social media use among younger generations has largely stayed flat since 2012, but the share of Baby Boomers and their elders who use social media has increased by 10 percentage points.

The dichotomy between the buying power of older Americans and the scant attention they get from marketers is a problem I've long seen from the inside. During more than three decades in advertising, I worked on all sorts of campaigns for a vast array of products. I can't recall ever seeing even one person older than age 45 quoted in a brief or included in a focus group, with the possible exception of a campaign for a dog food aimed at older pet owners.

The lack of interest in going after the older consumer goes hand in hand with the notorious ageism that plagues marketing departments and advertising agencies. Many of my colleagues saw their successful careers upended when they approached the half-century mark. At times, it's done blatantly; other times, subtly. I myself had experiences in which I was informed that my "profile" was "no longer what people are looking for."

With few employees older than 50 helping design marketing campaigns, businesses are unlikely to do more to reach consumers in that age bracket. But there's a pressing economic need to do so. "Between now and 2030, the 18–49 segment is expected to grow +12%, while the 50+ segment will expand +34%," Nielsen reports. Businesses make a mistake by thinking only younger generations are their future. Research has found that, contrary to stereotypes, people older than 50 are not "set in their ways." They can be won over by brands that reach out to them.

Marketers should recognize that today's older consumers "are focused on anti-aging and breaking the mold of what 50 looks like," researchers at California State University and Southern Connecticut State University wrote in a study published by the *Journal of Behavioral Studies in Business*. Companies that tap into this potential stand to gain. In any industry, the first brand to transform its outreach to the 50-plus set could win over millions of consumers—consumers with more money to spend than their children have.

HBR Reprint H05CNV

Originally published on HBR.org January 9, 2020

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Executive Summaries

A firm that is considered untrustworthy will find it difficult or impossible to collect certain types of data, regardless of the value offered in exchange.

CUSTOMER DATA: DESIGNING FOR TRANSPARENCY AND TRUST
PAGE 92

Connected Technologies

The Age of Continuous Connection

Nicolaj Siggelkow and Christian Terwiesch | page 10

Thanks to technologies that enable constant, customized interactions, businesses are building deeper ties with their customers. Firms can now address customer needs the moment they arise—and sometimes even earlier. By employing *connected strategies,* companies are dramatically improving their customers' experiences, boosting their own operational efficiencies, and gaining competitive advantage.

In their research the authors have identified four effective connected strategies: *Respond to desire,* which entails filling customers' requests quickly and seamlessly; *curated offering,* or presenting personally tailored recommendations; *coach behavior,* or reminding people of needs and goals and nudging them to act; and *automatic execution,* or anticipating what people want and delivering it without even being asked.

To get the most out of these strategies, firms must understand customers' privacy preferences, build new capabilities, and use the learning from repeated interactions to shape future ones.

HBR Reprint R1903C

Marketing in the Age of Alexa

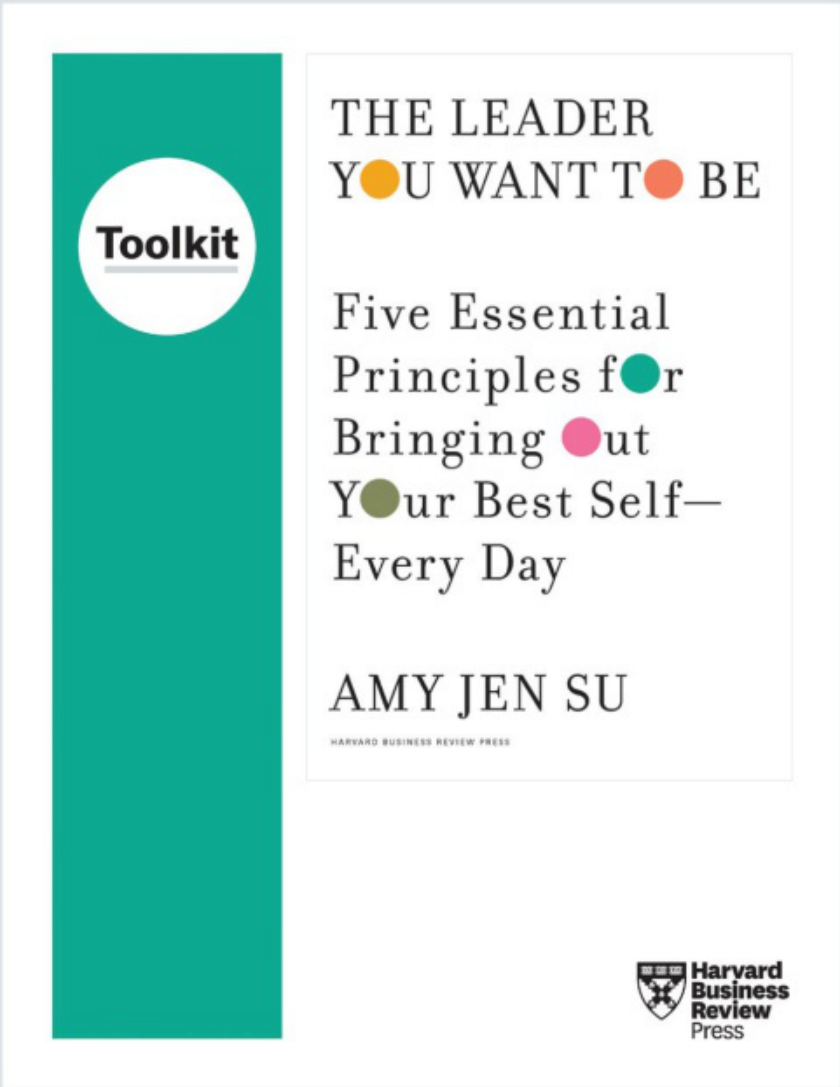
Niraj Dawar | page 18

Over the next decade, as artificially intelligent assistants like Alexa and Siri become the main channel through which people get information, goods, and services, the way companies acquire, serve, and retain customers will radically change. Because the bots will have deep knowledge about individuals' habits and preferences, they'll be able to anticipate a consumer's needs even better than the consumer herself can. They'll ensure that routine purchases flow uninterrupted to homes and constantly scan and analyze complex offerings like insurance and data plans for the best deals. And the more AI assistants satisfy consumers, the more trust in them will replace trust in brands.

Marketing will soon become a battle for AI assistants' attention, says Dawar. Brands will focus on influencing AI algorithms and compete for placement on the assistants' platforms. In return, brands will be able to get data on consumers from the platforms. That's something companies will need in this new world, because AI assistants' never-ending reassessment of purchases will force businesses to keep producing new tailored offers and innovations for customers.

HBR Reprint R1803E

Harvard Business Review



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Executive Summaries

Connected Technologies

What Western Marketers Can Learn from China

Kimberly A. Whitler | page 26

For decades, Western executives of multinational brands seeking to expand globally have operated under a simple premise: Marketing content and channel selection should be customized to local markets, but Western marketing principles are universal. Firms are particularly quick to export media and ad strategies to developing markets, where advertising and media are more recent developments.

Meanwhile, Chinese marketers have developed a unique approach tailored to China's mobile-first consumer. It relies on the creation of shareable, viral content and the presence of dominant, channel-straddling media giants. It is faster and cheaper and often more effective than the Western marketing paradigm. It also is more embracing of risk. For companies that hope to enter China or grow existing operations there, understanding the Chinese marketing mindset will be essential to achieving success.

This article examines the adjustments Western companies must make to succeed in China—and around the world.

HBR Reprint R1903D

Social Media and the Web

Branding in the Age of Social Media

Douglas Holt | page 48

Social media was supposed to usher in a golden age of branding. But things didn't turn out that way.

Marketers originally thought that Facebook, YouTube, and Twitter would let them bypass mainstream media and connect directly with customers. Hoping to attract huge audiences to their brands, they spent billions producing their own creative content. But consumers never showed up. In fact, social media seems to have made brands *less* significant.

What happened? The issue is, social media has transformed how culture works, in a way that weakens certain branding techniques. It has united once-isolated communities into influential *crowdcultures.* Crowdcultures are very prolific cultural innovators. Their members produce their own content—so well that companies simply can't compete. Consider that people making videos in their living rooms top the charts on YouTube, which few companies have managed to crack.

While they diminish the impact of branded content, crowdcultures grease the wheels for an alternative approach, *cultural branding.* In it, a brand sets itself apart by promoting a new ideology that springs from the crowd. Chipotle did this successfully when it made two short films critiquing industrial food, tapping into a movement that began in the organic-farming subculture and blew up into a mainstream concern on social media. Other good examples come from personal care. Axe revived its brand by becoming an over-the-top cheerleader for the "lad" crowd that arose as a response to politically correct gender politics. Dove championed the other side of the divide, with campaigns that spoke to crowdculture concerns about unhealthy beauty standards for women.

Brands succeed when they break through in culture, and crowdcultures are a great vehicle for doing that. But firms can't identify the critical opportunities by relying on traditional segmentation and trend reports.

HBR Reprint R1603B

Designing Better Online Review Systems

Geoff Donaker, Hyunjin Kim, and Michael Luca | page 58

Online reviews are transforming the way consumers choose products and services of all sorts. We turn to TripAdvisor to plan a vacation, Zocdoc to find a doctor, and Yelp to choose a new restaurant. Reviews can create value for buyers and sellers alike, but only if they attain a critical level of quantity and quality. The authors describe principles for setting the incentives, design choices, and rules that help review platforms thrive.

To address a shortage of reviews, companies can seed them by hiring reviewers or drawing reviews from other platforms; offer incentives; or pool products. To address selection bias, they can require reviews, allow private comments, and design prompts carefully. To combat fraudulent and strategic reviews, they can set rules for reviewers and call in moderators—whether employees, the community, or algorithms.

HBR Reprint R1906H

Make the Most of Data

The Next Great Digital Advantage

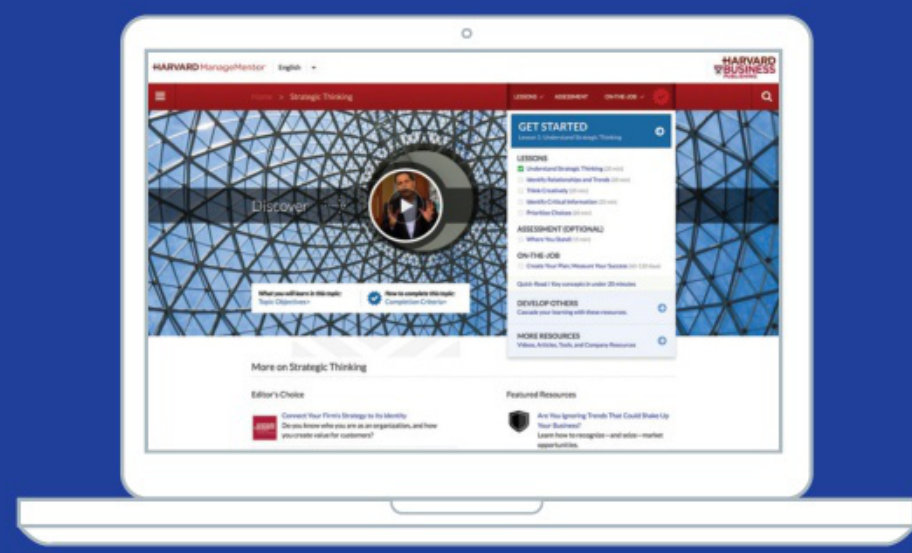
Vijay Govindarajan and N. Venkat Venkatraman | page 76

We've all seen the signs in front of McDonald's announcing "Over X Billion Served" and have watched the number rise over the years. But tracking how many burgers are sold every day, month, or year is a relic of the past. Today ask: Do we know where each consumer buys her burgers? At what time? What does she drink with it? What does she do before or after buying a burger? How can we satisfy more of her needs so that she keeps coming back? Datagraphs capture this information, helping to reshape competition in every sector. Leaders must invest in upgrading their data architecture to enable a real-time, comprehensive view of how consumers interact with their products and services so that they can develop unique ways to solve customer problems.

HBR Reprint S22033

Spotlight Package Reprint R2203B

Harvard Business Review



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Executive Summaries

Make the Most of Data

The Ultimate Marketing Machine

Marc de Swaan Arons, Frank van den Driest, and Keith Weed | page 84

Though social and digital media are rapidly transforming marketing and new tools emerge daily, in most firms the organization of the function hasn't changed in 40 years. How should marketers revamp their strategies, structures, and capabilities to meet the new realities? To find out, the consultancy Effective-Brands and its partners conducted a study involving 10,000 marketers from 92 countries, which examined what separated high-performing marketers from the pack.

High performers, the study showed, excelled in three areas: integrating data about what customers are doing with an understanding of *why* they are doing it; communicating a brand purpose (the functional, emotional, and societal benefits of the offering); and delivering a "total experience" to customers. To provide this kind of experience, high performers break down silos and enlist the help of the entire organization. That means they must link marketing strategy tightly to business strategy and to other functions; inspire employees across the company with the brand's purpose; focus and align around a few key priorities; set up nimble, cross-functional teams; and build internal capabilities through extensive training at all levels.

Surprisingly, few companies have been able to put all these pieces together. Only half of even high-performing organizations excel on some of these capabilities. But that shouldn't be discouraging; rather, it just illuminates where there's work to do.

HBR Reprint R1407C

Customer Data: Designing for Transparency and Trust

Timothy Morey, Theodore "Theo" Forbath, and Allison Schoop | page 92

With the help of technology, companies today sweep up huge amounts of customer data. But they tend to be opaque about the information they collect and often resell, which leaves their customers feeling uneasy. Though that practice may give firms an edge in the short term, in the long run it undermines consumers' trust, which in turn hurts competitiveness, say authors Morey, Forbath, and Schoop.

In this article, the three share the results of a survey of 900 people across five countries, which looked at attitudes about data privacy and security. It examined what people knew about the information trails they leave online, which organizations they did—and did not—trust with their data, and which data they valued the most.

The results show that the value consumers place on different data depends a lot on what it is and how it is used. In general, the perceived value rises as the data's breadth and sensitivity increases from basic, voluntarily shared information to detailed, predictive profiles that firms create through analytics, and as its uses shift from benefiting the consumer to benefiting the company. If data is used to improve a product, consumers generally feel the enhancement itself is a fair trade, but they expect more in return for data used to target marketing, and the most in return for data sold to third parties.

To build trust, companies must be transparent about the data they gather and offer consumers appropriate value in exchange for it. Simple legal disclosures aren't enough, however; companies must actively educate their customers and incorporate fairness into their products and models from the start. Companies that get this will win consumers' goodwill and business and continued access to their data. Companies that don't will find themselves at a serious disadvantage, and maybe even shut out.

HBR Reprint R1505H

Know Your Customers

Are You Undervaluing Your Customers?

Rob Markey | page 114

Leaders recognize that they should manage their businesses to maximize the value of the customer base. But too often, earnings pressures result in cost-cutting measures that hurt customers.

Loyalty-leading companies operate differently. They create systems for measuring customer value and invest in the necessary enabling technology; they use design thinking methods to build customer loyalty; they organize the business around customer needs; and they engage the organization and stakeholders—employees, board members, investors—in the transformation.

And they report on their results in formats that allow investors and other stakeholders to make informed judgments.

HBR Reprint S20011

Spotlight Package Reprint R2001B

CSC: Miami

Content Supply Chains must be forensic in their detail.

Television broadcasters have long relied on instinct, market knowledge and spreadsheets to forecast TV viewership - but instinct needs to partner with information; market knowledge is never enough; and spreadsheets are no way to excel.

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