Power shift: The rise of the consumer-focused enterprise in the digital age

Recent developments have empowered consumers as never before. Corporations that infuse the consumer perspective into their approach to leadership, strategy development, and tactics can gain a competitive advantage.

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Global markets have undergone an unprecedented transformation over the past several decades. Political reforms have expanded consumer choices, fueled the growth of the middle class around the globe, and created massive wealth. The digital revolution has empowered these same consumers, through access to information and to one another—anywhere, anytime. New technology has fueled disruptive innovation, even as an explosion of media has provided new opportunities for companies to reach global consumers. These changes have left many companies struggling to adapt to increasingly powerful consumers in global, unpredictable markets.[1]

To understand how companies are responding to these changes, a team of Kellogg faculty conducted in-depth interviews with CEOs, chief marketing officers (CMOs), and other executives at leading companies across a range of industries. From these conversations, we identified an emerging type of organization—the consumer-focused enterprise. Unlike leading companies of the past, which relied on the marketing function to address customer needs, this new enterprise makes the consumer perspective an integral element of process and instinct at every level and across every function. By being more focused on the consumer, these companies have proved to be more nimble, innovative, and more competitive.

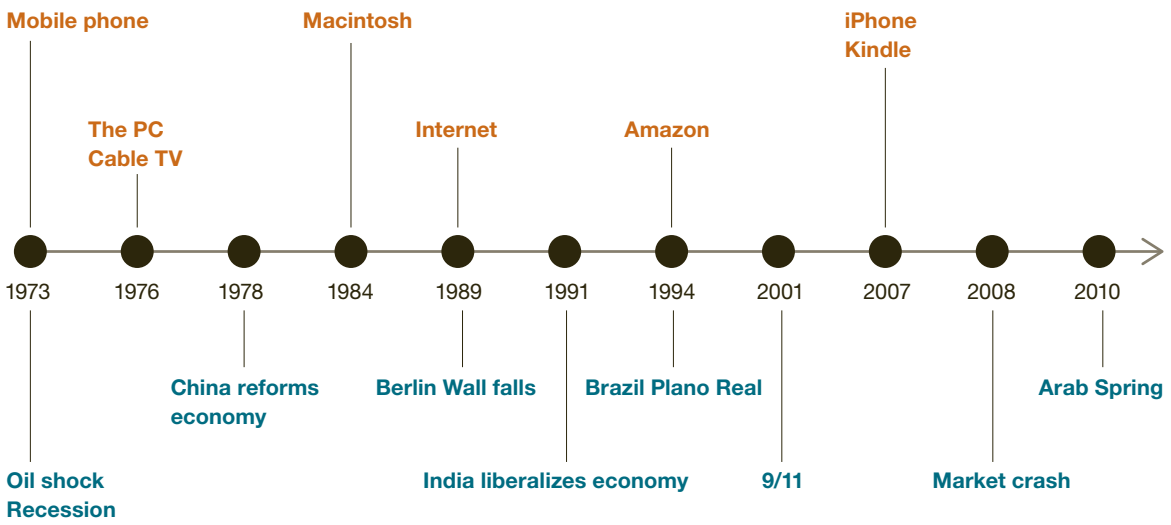
The evolution of the global economy

In *The Practice of Management*, published in 1954, business visionary Peter F. Drucker advocated infusing the customer perspective throughout the organization. So why did it take nearly six decades for businesses to embrace his wisdom? A major factor was the global economy's extended period of prosperity and stability following the conclusion of World War II. From 1947 to 1973, global growth averaged 4.8 percent annually. The United States was the economic engine of the world: in 1975, its GDP matched those of the next three largest economies (the U.S.S.R., Japan, and West Germany) combined. During this period, Brazil, China, and India were still in their relative infancy as global players. With companies thriving, there was little reason to change direction.

Starting in 1973, however, the business environment began to shift —dramatically at first, then more rapidly. Two prevailing and often complementary forces, political reform and digital technology, combined to bring the consumer to the fore (Figure 1).

[1] We focus on the consumer, or end user, rather than the intermediate customer for several reasons. The consumer benefits the most from greater freedom of choice, growing incomes, and the power of new technology. These changes also provide individual consumers with a more powerful voice—say, by shaping opinions about companies and products—even if they haven't purchased products.

Figure 1 **The digital age: 40 years in the making**



The market as a mechanism for creating wealth

In the post–World War II era, developing nations had limited capacity to vault into the ranks of global economic superpowers. All that began to change as one country after another implemented political and economic reforms, unleashing economic growth and creating more attractive markets for multinational companies. In 1975, China's GDP was just one-tenth that of the United States; by 2011, after implementing fundamental political change, China was on its way to becoming the world's largest economy. Meanwhile, Brazil successfully contained inflation and India reformed a socialist economy, moves that spurred a new wave of growth that gave their populations increased buying power. The resulting growing global middle class offered a counterbalance to the once-dominant U.S. market. Despite the political, cultural, and logistical challenges inherent in operating in some foreign countries, the opportunities presented by these burgeoning consumer markets are too lucrative to ignore.

The digital age's information revolution

Buried in 1973's headlines about the oil crisis and global recession was the introduction of a new piece of technology: the cellular phone, enabled by microprocessors originally developed for NASA. With an exorbitant price tag (just under $4,000 in 1973 dollars), dismal battery life (less than an hour), and impressive heft (more than 2.2 pounds), the cell phone was nicknamed "the Brick" and had little immediate appeal within the consumer market. This breakthrough, however, set in motion a series of advances that include the personal computer and, more recently, the 2007 launch of Apple's iPhone and Amazon's Kindle.

Shortly after the emergence of the mobile phone, deregulation of the communications industry in 1976 spurred the expansion of cable television, a platform that allowed for the fragmentation of media beyond the national networks. The rise of the Internet in the late 1990s and early 2000s paved the way for the emergence of digital media in its many forms. Thanks to the combination of new media and mobile devices, consumers now have unprecedented access to information and content—and to one another.

The intersection of these political and technological changes can be summed up by one word: empowerment. By 2011, approximately 2.5 billion people were on the Internet, with hundreds of millions more using their smartphones to connect with people and information. More than 60 percent of U.S. households receive an average of 118 channels. Meanwhile the rise of social media has offered an instant global platform to share ideas, manage natural disasters, and, in the case of the Arab Spring, build momentum for revolution.

Empowered consumers, greater choice, and accelerated competition

The twin forces of political reform and digital technology have shifted the balance of power from developed markets to the developing world and from institutions such as governments to individuals, who exercise their new power as consumers to gain information to their advantage. A recent survey found that 70 percent of customers use their smartphones to read reviews, 61 percent to compare prices and products, and 42 percent to contact the retailer.[2] More and more, these individuals are doing these activities *while* they're shopping.[3]

The digital age has obliterated the scripted, one-way flow of information that existed during the era of just a few channels (Figure 2). Companies used to communicate in highly controlled, carefully crafted messages. Now corporations and consumers, including Facebook's one billion active users, are engaged in unplanned, unscripted discussions. Executives now understand that any person has the potential to create a profit-threatening crisis just by hitting "send." At the same time, these devices and activities are generating massive amounts of data that can offer insights into consumers' lives.

This sea change means global markets operate at remarkable speed. A powerful illustration is found in a comparison of the history of Apple's successful products. After its 1984 launch of Mac computers, it took Apple more than 20 years to sell 50 million units. With the iPad, released in 2010, the company crossed that threshold in just 2 years. New product launches are now coordinated on the scale and with the skill of Hollywood blockbusters, a fact that has ushered in an era where the launch of a hot new device (or subsequent lack of inventory) is headline news around the world. As the stream of Apple products illustrates, the digital age has witnessed a stunning array of disruptive innovations.

[2] Google and Ipsos, "Digital Connections Study: Life of the Mobile-PC User," January 2012.

[3] Stephanie Clifford and Claire Cain Miller, "The shrewd shopper carries a smartphone on Black Friday," *New York Times,* November 22, 2012.

Figure 2 **What the digital age means for business**

How leading companies have responded

Against this backdrop, companies are struggling to adapt to more powerful consumers, the increasingly rapid pace of competition, and the constant threat of disruptive innovation. Many executives are recognizing that the traditional organization—characterized by highly structured processes, functional depth, and the isolation of the consumer perspective in a single function—is too slow, too expensive, and too ineffective for today's consumers and markets. The consumer-focused enterprise reflects an emerging approach that's evident in the C-suite discussions, organizational structures, and new approaches to consumer engagement.

Leadership

The most senior executives have increased their focus on consumers, who are simply too powerful to be ignored, even at the highest levels—a significant break from tradition. Historically, executives believed that an understanding of the consumer could be delegated to market research and remain isolated in marketing function, to be shared with other departments as needed. For many companies in business-to-business settings, customer knowledge excluded an understanding of the end consumer. Today, the consumer is becoming central to every decision, from leadership development to growth strategy.

Intel, founded by high-tech legends Gordon Moore, Andrew Grove, and Robert Noyce, became a Silicon Valley icon through technological leadership. Although technology remains at the core of its future and its customers are other high-tech companies, Intel has embraced a consumer

focus to create a powerful consumer brand. The change began when Paul Otellini became CEO and shifted the chipmaker's focus away from producing individual microprocessors to developing solutions that address consumer needs. Intel is in good company: other businesses have adopted Otellini's perspective and altered their approach to everything from leadership development to investment in brands.

Integrating the consumer perspective into every facet of the organization necessitates an expanded role for the CMO. In many cases, the CMO is leading the cultural transformation, moving the focus on consumer perspective beyond its traditional marketing function and into core processes. This development is similar to how the importance of technology has forced the chief information officer (CIO) to take on a more strategic role.

The emergence of new sources of consumer information, such as social media, has made it possible to quantify the impact of marketing efforts in granular detail. Concurrently, consumer behavior and purchasing habits are generating greater volumes of information, elevating the importance of data analytics to business decision making. Forward-thinking CMOs are developing organizational capabilities to aggregate and interpret this information. The increasingly global nature of competition adds another layer of complexity to this task: companies must cater to consumer tastes in Bombay, Bogota, and Boston.

To meet these challenges, CMOs are gaining greater authority and influence. Some companies have even combined the CMO and CIO positions—an acknowledgement of how vital technology has become to serving customers. Others have created the position of chief customer officer (CCO), an executive in charge of marketing, sales, customer experience, communications, and other functions. These moves share a common objective: to put the consumer at the center of the conversation and bridge the organizational silos that impede collaboration across departments.

Strategy

The empowerment of consumers and the acceleration of competition have created a fundamental challenge for strategy development processes. Typically highly structured, careful, and deliberate, these processes were designed for a golden age, when markets were stable and consumers had limited choice. The new strategy development processes are founded on deeper insights about consumers: not simply how they behave, but what motivates them. Truly understanding consumers in a global context is very challenging, as is using these insights to drive disruptive innovations. All these changes are occurring while the process for strategy development moves from a highly scripted, structured process to an adaptive, inventive one, much like going from making movies to performing improvisational comedy. The following examples highlight how companies are navigating these issues.

Deeper insight and global brands. A company's expansion into new markets often raises fundamental questions about consumers. For example, how can Starbucks connect with Chinese consumers who have lower incomes compared with North Americans, who embrace a rich tradition for tea, and for whom dairy products are a much less regular part of the diet than in traditional coffee cultures? Executives are discovering that success in such situations depends on gaining a deeper understanding of consumers—well beyond what customers articulate or even recognize themselves. Companies that develop these insights from global experiences can translate them into a competitive advantage.

When U.K. retailer Tesco entered South Korea, for instance, it faced stiff competition from a well-established incumbent with ample retail locations. The lack of available retail space suggested that Tesco's growth would be limited as a result. Twenty years ago, this obstacle might have doomed expansion efforts. However, Tesco discovered that the busy work schedules of consumers make shopping in South Korea particularly difficult. Time is precious, but consumers are highly tech savvy. So Tesco created virtual stores in subway stations, with full-size, illuminated images of grocery store aisles just outside the doors of arriving trains. Waiting customers can scan a code to purchase goods that are then delivered to their homes. The strategy increased online sales by 130 percent and made Tesco's subsidiary Home Plus the number two retailer in South Korea in just two years.

A new approach to innovation. The rising middle class in China, India, and other countries creates lucrative opportunities to expand the customer base, but established companies must address the unique needs of local markets to be successful. Initial attempts by corporations to pursue these new global opportunities amounted to taking products made for established markets and reconfiguring them for developing markets.

In India, GE Healthcare, for example, offered medical technology such as CT Scan developed for more established economies, an approach that limited its market share to 10 percent. GE was simply pricing itself out of the market. To address this problem, the company began designing products specifically to meet the needs and price point of Indian health care providers. For example, GE designed an electrocardiography machine priced at $500—a fraction of the $20,000 price tag in developed markets. After the product's launch in India, GE executives identified new markets in the developed world that the low-cost version could serve profitably. Such a truly global approach is now seen as essential to the company's future.

As the example of GE Healthcare demonstrates, in recent years executives have embraced reverse innovation—adapting products designed for *emerging markets* to serve consumers in developed economies. Whereas companies once might have worried about undercutting established product lines, the global economy presents an expanded variety of markets and opportunities that calls for a diverse range of offerings. Following GE's example, companies such as Levi's and P&G have adopted reverse innovation, transforming global competition yet again.

New organizational forms. To become more nimble and responsive to shifting trends, companies are increasingly infusing the consumer perspective into every core process, from leadership development to product design. But the challenge is greater: organizations that hope to thrive in a competitive environment must enhance their functional expertise, infuse it with the consumer perspective, and achieve sufficient strategic flexibility.

Harley-Davidson offers insight into one successful approach. After dominating the U.S. motorcycle market for 50 years by focusing on a customer base composed of police departments and the military, Harley began to lose ground to Honda, which sought to develop a consumer market for motorcycles. Kawasaki, Suzuki, Yamaha, and others quickly imitated Honda, ultimately threatening Harley's government business and its survival. As an early step in the company's resurgence, its executives became customers, buying their motorcycles from dealerships and riding with customers on weekends. By developing a shared consumer mind-set across the organization, Harley's executives began to reinvent the company.

Harley also reorganized the company's decision-making process. Although the organizational structure remains, decisions are made in three "circles," groups of executives from various departments with responsibilities for demand creation, demand fulfillment, and support functions (Figure 3). Unlike silos, circles are flexible, enabling Harley to increase the speed of

Figure 3 **Using the consumer perspective to drive strategy development**

Ex: Harley-Davidson departments

From a siloed, functional approach to an orientation around consumer needs

Source: Harley-Davidson

decision making and overall responsiveness to evolving consumer tastes. By reaching across traditional functions, managers are able to develop new strategies in adaptive and inventive ways that retain functional depth and a consumer-oriented perspective.

Tactics

In 1967, Kellogg Professor Philip Kotler popularized the 4 Ps of marketing—product, price, place, and promotion—in his book *Marketing Management: Analysis, Planning, and Control.* Over the ensuing 40 years, the 4 Ps became the guiding principle for marketing tactics. While some have attempted to advance other approaches, the 4 Ps have endured. The response of organizations to the seismic impact of more empowered consumers reveals the emergence of a new approach to tactics (Figure 4).

Figure 4 **Tactics for the consumer-focused enterprise in the digital age**

Products evolve into product systems. In a hypercompetitive world, where disruptive innovations are all too common, products can be duplicated. But product systems—linked by software, content, and expertise—offer both greater revenues and the potential for sustained competitive advantage. They are less vulnerable to competing products, more stable, and offer a broader scope of value, making duplication very difficult.

Pricing is replaced by revenue models. In the new landscape, organizations create value for consumers throughout the system in an ongoing relationship. Pricing is no longer focused on a single or even multiple transactions. The product system creates a flow of resources and value, so companies must decide how, when, and where to extract resources from the system. As this time perspective shifts from a simple transaction into a continuing connection, a much longer-term perspective is essential as companies consider the lifetime value of consumers.

Place gives way to access and availability. The move to product systems significantly complicates the challenge of distribution. Both online and physical availability must be addressed for each component in a product system, and decisions must be made about how consumers access that system.

Promotion shifts toward consumer engagement. With empowered, connected consumers, information no longer flows one way. Organizations are creating opportunities to engage rather than inform buyers—further evidence of the fundamental shift in power toward the consumers.

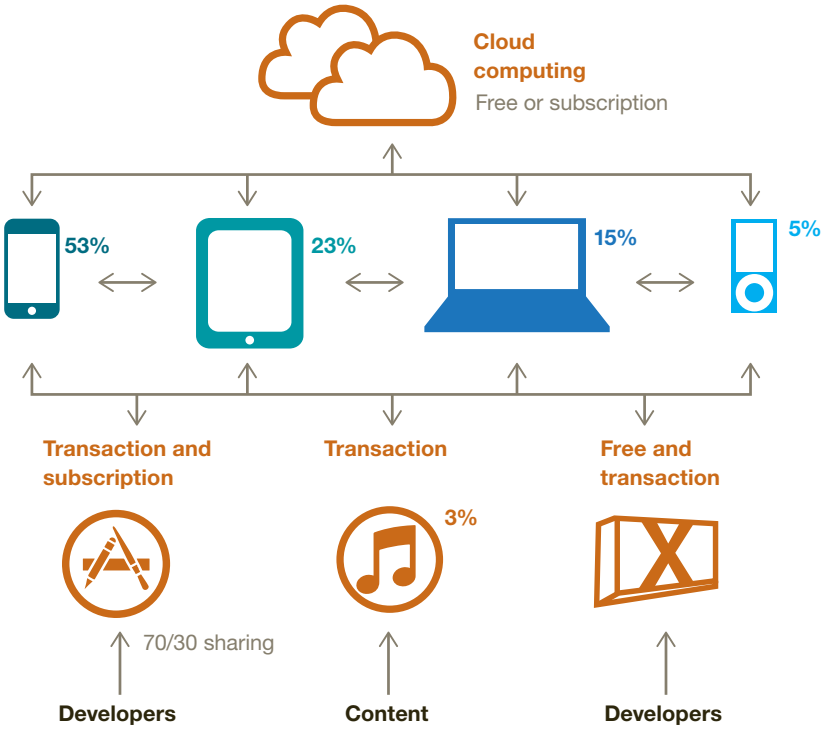
The emerging perspective on well-worn tactics reveals a complex flow of resources between a company and its consumers before, during, and after purchase. Executives must address a range of challenges:

1. How should such a system be constructed?
2. Where and when should the company provide access to the system?
3. At what points should the company extract value to generate revenue?
4. How should the company engage consumers to educate them about the system?

Apple has become synonymous with this new approach. After an era of focusing on breakthrough products, Apple now emphasizes their integration. The iPhone is of course distinguished by many features, but unlike competing smartphones it is part of a larger system of software and support, including iTunes for content, the App Store for mobile software applications, and the iCloud to synchronize devices. Apple began creating this system in 2003 with iTunes and has continued by building a developer community for applications (Figure 5).

Figure 5 **Extending the value of products through product systems**

Apple example



Source: Apple

In Apple's system, much of the distinctive value is created through apps, music, and software specifically—even though revenues and profits from these sources are relatively small. iTunes, for instance, produces less than 3 percent of Apple revenue, and for most consumers the iCloud is free. Apple's revenue model extracts value from consumers through hardware purchases, mostly the iPhone, which accounts for more than half of Apple's revenue. Both hardware and software are available for purchase from a mix of online and retail outlets, where Apple engages consumers with free support through its Genius Bars.

Consumer acceptance has been stunning. The very first week iTunes became available, consumers purchased 1 million songs. Today, more than 700,000 apps are available for Apple devices, and consumers have logged 35 billion downloads. Apple's offerings are part of a complete system of products and services focused on strengthening relationships with customers over the long term.

Beyond Apple, organizations as varied as GE and Mattel are embracing these new tactics. GE's Industrial Internet harnesses sensors, analytics, and expertise to create more value through locomotive engines.[4] Mattel's American Girl doll collection, complete with characters, stories, clothing, and accessories, creates a rich play experience. These companies and others have extended the 4 Ps to reflect our new, consumer-driven world.

The way forward

For executives, recognizing the shift in power that has occurred since 1973 and embracing a more consumer-centric approach will be neither quick nor easy—but it is imperative. Companies that fail to adapt will struggle to survive. This change, like all change, creates new opportunities and will produce new winners. Companies can get on the front foot by integrating the consumer perspective into every core process and reshaping the culture and instinct of the organization. In the coming years, we'll explore many of the challenges that executives are facing as part of this journey and discuss the strategies they are developing to succeed. ■

[4] For more information on GE's Industrial Internet, see www.ge.com/stories/industrial-internet.

About the Author

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