



The key to sustainable profitability is to drive brand relevance from deep insights into the needs of target customers.

Customers at the Core

By Robert Schieffer and Eric Leininger

Virtually all companies who compete successfully in today's challenging marketplace accept the idea that they should obtain insight from their target customers as they develop their business strategies, segment their markets, and design new products. Numerous studies have shown that companies with a strong external focus on customers tend to be more profitable than companies focused internally on products, technology, or processes. Still, many organizations restrict the focus on consumer insights to their marketing function.

Customer-insight driven companies continually strive to integrate all customer insight into a knowledge base, and widely share this customer knowledge throughout the organization. All decisions are made not only with the goals of the enterprise in mind, but with the needs of the target customer in mind. Investments are made not only in customer insight infrastructure and tools, but in developing business practices that make customer insights readily available to all functions within the company.

EXECUTIVE briefing

While many companies claim to be “customer-focused,” “customer-driven,” or even “customer-centric,” they are often operating far from best practices. Companies frequently collect input from target customers, but fail to dig into the fundamental reasons behind consumer purchase decisions. Companies that drive their marketing and business strategies through the gathering, dissemination, and application of deep customer insights obtain powerful, profitable sustainable competitive advantages for their brands. This article introduces a framework for assessing organizational capability in generating and applying consumer insights. It also offers tips to accelerate an organization’s return on investment from consumer insight professionals.

Customer Input Integration

Companies can be classified along a customer input continuum of five stages ranging from customer oblivious to customer controlled. (See Exhibit 1.)

Customer oblivious. These are often small or internally focused companies. They typically focus on the technology that will support the development of their product line, and feel that customers don’t know what they want. Therefore, consumer input is not integrated into the planning process. Their major source of input from customers is customer complaints, and they view these complaints as irritations rather than opportunities to retain valuable customers. Their marketing tactics tend to focus on “selling harder” and “cutting prices to get the business.” Since profitability is hard to sustain by these companies, their mortality rate is high.

Customer curious. Like the customer oblivious companies, they have an unfocused marketing strategy and spend money to serve any customer who wants to buy. However, these companies have decided that customer input is helpful in some marketing decisions. These companies will hire a marketing staff to learn more about customers, and often develop differentiated offerings for the market. Their major source of customer input is anecdotal, and their curiosity about customers often allows them to avoid gross marketing blunders that doom the customer oblivious company. However, their unfocused marketing strategy and lack of customer insight discipline only improves their odds for sustainable profitability slightly.

Customer-input driven. These companies realize that customer input is critical to most marketing decisions, and make investments in gathering both qualitative and quantitative data from customers. These companies believe that all customer input deserves attention, but often fail to transform the vast amount of customer input they have into customer insights, planning principles, and marketing strategies. They have developed a segmented view of customers, realizing that different groups of customers respond in different ways to different product and service offerings, but usually target more customer segments than they can profitably serve. Because these companies lack insights into what their target customers really value, their offerings tend to be of the win/lose variety—great for the company, but less than great for the cus-

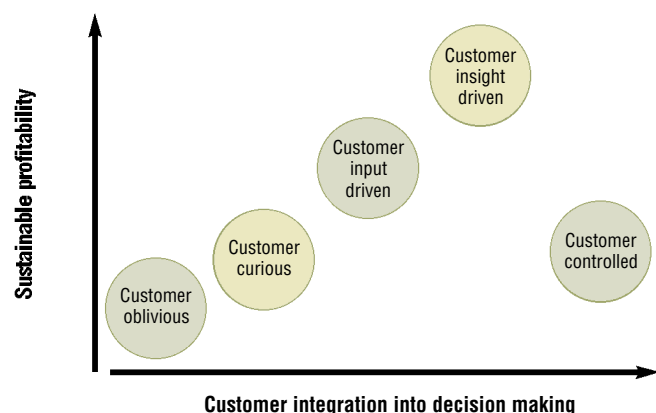
tomers. These companies invest in marketing research staff to collect customer input, but this customer input is often owned by and exclusively utilized by the marketing department.

Customer-insight driven. As companies move to stage four, striving to be driven by deep insights into the undermet needs of their target customers, customers become delighted with the companies’ products and services and often pay higher prices to get them. These companies deepen their focus on attractive target customer segments, and develop well-positioned offerings for a manageable group of target segments. These companies create win/win offerings that are profitable for them, and make target customers feel that the offering was created especially for them. Most importantly, these companies understand the process of transforming customer input into deep customer insights that drive their entire organizations, not just the marketing departments.

McDonald’s Corporation is a good example of a company that has revitalized itself over the past several years by returning to its original focus on the customer. In April 2003, new CEO Jim Cantalupo told investors he would return McDonald’s to glory by focusing on the customer basics: reliable, relevant, and appealing food; clean restaurants; and good customer service. As the *Chicago Sun Times* reported on

■ Exhibit 1

Stages of customer insight integration and sustainable profitability



March 21, 2004, Cantalupo had “immersed himself in reports showing what customers said.” Cantalupo’s management team (including two men who would later be his successors as CEO, Charlie Bell and Jim Skinner) further accelerated customer focus and its application to the core principles of operational excellence, marketing leadership, and financial discipline. When interviewed in the January 5, 2007 issue of the *Wall Street Journal*, Skinner’s “Five Tips for Managing a Turnaround” included: “Face the facts. Listen to your customers because they will tell you what really matters.”

We believe that companies that are driven by deep insights into the needs of their target customers have the best opportunity for profitable sustainable competitive advantages. Numerous studies have shown that companies with a strong external focus on customers tend to be more profitable than organizations focused internally on products, technologies, and processes. In a January 2006 article in the *Journal of Marketing* (“Customer Satisfaction and Stock Prices: High Returns, Low Risk”), Claes Fornell, Sunil Mithas, Forrest Morgeson, and Mayuram Krishnan found that a company’s satisfied customers are likely to improve both the level and the stability of net cash flows. Further, they found that companies that do better than their competition in terms of satisfying customers (as measured by the American Customer Satisfaction Index or ACSI), generate superior returns in the stock market at a lower risk. The authors of the article conclude that it is possible to beat the market consistently by investing in companies that do well on the ACSI.

Customer controlled. Unfortunately, some companies go too far, and become customer controlled. They will respond to the dictates of almost any customer, and lose focus on target segments in a way that exposes them to indirect competition. They neglect to dig deep for customer insights, and abdicate their decision making to their customers. They give the customer what they ask for, often delivering incremental innovations at a lower price. This is hardly the road to sustainable profitability. The sales force usually has a high degree of power in customer-controlled companies, since it is the conduit of customer dictates to the organization. These companies often serve the unprofitable customer segments that other companies try to avoid.

These five stages are summarized in Exhibit 2, which is a best practices assessment tool for helping companies determine which stage they currently reside in, as well as which best practices can move them to stage four.

Building a Knowledge Base

Breakthrough customer insights are more likely to result from deep immersion and cross-disciplinary thinking about an issue, rather than the result of one individual study. This places a premium on building an active knowledge base, rather than executing a series of unrelated projects and ideas—no matter how well-designed they might be. For example, consumer and marketplace knowledge management (as practiced at McDonald’s) has five levels. At the base is a core set of data which is treated as a public utility with broad access inside the organization. Core metrics (key performance indicators) are a common language to understand and predict performance in the organization. Insights reflect synthesis and multidisciplinary dialogue of key learnings. The word “insight” has been given a specific definition inside McDonald’s to ensure that this work is held to a high standard. By thinking across insights and metrics, McDonald’s has

■ Exhibit 2

Stages of customer insight integration

	Assessment tool				
	Stage I Customer oblivious	Stage II Customer curious	Stage III Customer input driven	Stage IV Customer insight driven	Stage V Customer controlled
Management view of role of customer insight	Customers don’t know what they want Ignore them	Customer insight is helpful in marketing decisions	Customer insight is critical for marketing decisions and helpful for other decisions	Customer insight is to all business decisions All decision makers focused on providing value to target customers at a profit	Forget about customer insight Give the customers what they ask for
Typical market and product strategy	All customers are targeted with undifferentiated offering	All customers are targeted with differentiated offerings	Many customer segments are targeted with Win/Lose offerings	Several customer segments are targeted with Win/Win offerings	Several customer segments are targeted with Lose/Win offerings; product proliferation
Dominant form of customer communication	Customer complaints	Customer anecdotes	Customer anecdotes and some hard customer input	Customer insight	All customer dictates
Practices in business-to-consumer firms	Focus on selling harder Cut prices to get the business	Marketing staff is hired Budget established for marketing research	Marketing research staff is hired Customer input is owned by and resides in marketing	Customer insight is everyone’s job Customer insights are captured in a knowledge base and shared throughout the organization	Customer insights are irrelevant and ignored All decisions are abdicated to the target customers
Practices in business-to-business firms	Focus on technology Cut prices to get the business	Marketing staff is hired Focus is on market information and competition	Marketing research staff is hired to study markets Focus is on understanding customer verticals	Customer insight is everyone’s job Insights are gathered on needs and benefits sought among target segments	Customer insights are irrelevant and ignored All decisions are abdicated to salespeople

developed planning principles to guide its go-to-market strategies and to share best practices around the world. Finally, at the capstone, are the selected few learning initiatives that have true enterprise strategic impact. (See Exhibit 3.)

Ten Potential Pitfalls

As companies seek to become customer-insight driven, they often invest more resources in their marketing and consumer insight capabilities to accelerate the transition. In fact, global expenditures on marketing research have grown between 5%-10% each year over the past 10 years. The actual amount of work has increased at an even higher rate, given the cost efficiencies driven by the adoption of lower priced online research. However, many pitfalls exist that can limit the effectiveness of these investments—or worse, lead to wrong marketing decisions.

We have combined experience of more than 55 years in applying customer insight in major corporations, in teaching, and in consulting. This experience has allowed us to see many successes—and many pitfalls—on the road to being customer-insight driven. By avoiding 10 pitfalls that happen far more frequently than they should, companies can increase their likelihood of achieving true customer insight, increased brand relevance, and sustainable profitability. These pitfalls revolve around three key themes: (1) the ability to relate to senior management needs and expectations, (2) skill in framing the strategic value of consumer insights and analytics initiatives, and (3) functional best practices.

The first three pitfalls revolve around the ability to relate to senior management needs and expectations.

1. The certainty pitfall. Upon committing to large investments in marketing research, some executive management expects customer insight to eliminate uncertainty. When marketing mistakes still occur (even at a lower frequency), some executives become cynical about the predictive ability of customer insight efforts and eliminate or gut marketing and marketing research departments.

The best way to think about investments in customer insight is not as eliminating uncertainty, but as improving the odds of marketplace success over the long haul. In a classic article in a 1989 *Harvard Business Review* (“Beware the Pitfalls of Global Marketing,” by Kamran Kashani), it was discovered that the most frequent error in marketing products globally was lack of adequate marketing research. Of the products launched without multi-country research, one-third succeeded and two-thirds failed. Thus, it is possible to succeed occasionally on instincts alone. However, of the products launched with the benefit of multi-country research, two-thirds succeeded and one-third failed.

Two key ideas can be drawn from this research into global marketing:

- Efforts to understand consumers in global markets can double your odds of success.

- Investments in understanding consumers will not eliminate uncertainty or guarantee success.

So setting the expectations of senior management is important to the success of an ongoing customer-insight program.

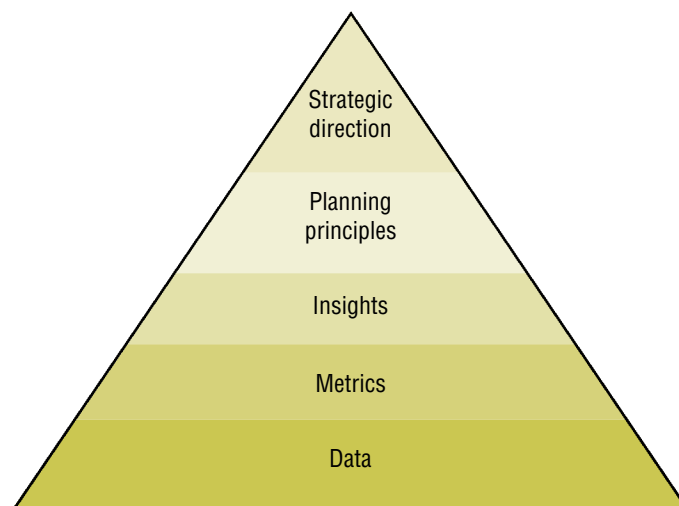
2. The issue of the day pitfall. Too often, customer insight is treated as a series of unrelated projects, with new learnings not being integrated into a knowledge base. Consumer and marketplace insight resources are focused on “issues of the day,” rather than foundational issues that will impact the strategic direction of the company. The irony here is that strong foundational studies can usually answer many of the “issues of the day.” Further, executive management appreciates the quick turnaround and low cost of answering questions from foundational studies, databases, and simulation tools.

What do we mean when we talk about these foundational capabilities? Ongoing deep understanding of consumer segments and need states, continuous analysis of advertising impact on attitudes and sales, an up-to-date product quality assessment vs. competition, automated price modeling capabilities, an ongoing competitive monitoring system, strong literature search tools, and a broadly accessible electronic library of insights and analytic projects will find many applications in day-to-day work.

3. Insight hoarding pitfall. In many companies, customer insights are not shared widely outside of the marketing department. Philosopher Sir Francis Bacon said long ago that “knowledge is power.” Consumer and marketplace insights should power the entire organization, rather than being hoarded within one area. All functions need to have a connection to meeting the needs of target customers. Finance is assessing relative investments, research and development is balancing technology-driven innovation with customer-driven innovation, sales organizations need to align brand goals with

■ Exhibit 3

Knowledge-base approach



retail customer strategies, and senior management is seeking to keep a finger on the current pulse of the business and understand the future potential of the business. These mission-critical tasks are all fertile ground for the application of consumer insight, if the insight function leader has the business savvy and leadership skills to work effectively in a cross-disciplinary environment. In the end, the best business decisions balance insight, experience, and judgment. Only by integrating with the entire business, can insight leaders fulfill on their full responsibility to the organization.

The next three pitfalls revolve around skill in framing the strategic value of customer insight and analytical initiatives.

4. One culture myopia pitfall. Conclusions about the global appeal of a product or service do not recognize cultural

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nuance around the world. Too often, companies will assume that successful product launches in a lead country are satisfactory test markets for global rollouts. Building a clear consumer framework that outlines the relative size of market segments, need states, and distribution outlets can help to create hypotheses about which new products will “travel well” across cultures.

■ Exhibit 4

Customer insight tools

Internal versus external resources

	Internal resources	External resources
Secondary data	Government sources Competitive Web page monitoring Marketresearch.com	Competitive intelligence
Exploratory approaches	Observation Ethnography Customer visit program Customer advisory panels	Depth interviews Focus groups Projective techniques
Descriptive approaches	Usability testing Internet surveys Internet customer panels	Segmentation studies Perceptual mapping Trade-off studies Pricing studies Advertising testing
Casual approaches	Test marketing Balanced scorecard of customer metrics and financial metrics	Simulated test market models Marketing mix models

5. Tactics before strategy pitfall. Many companies neglect the development of a sound marketing strategy prior to developing marketing tactics. Tactical research, such as product optimization, advertising testing, or price testing, is conducted prior to segmenting the market, targeting one or two segments to serve, and clearly positioning the offering to the target segment(s).

Effective marketing tactics can only be developed by optimizing them to the target market segment, rather than the entire market. Effective tactics can only be developed after the positioning strategy is clearly articulated: Who is the target market, what category is the offering competing in, what is the compelling point of difference, and what is the reason to believe? Avoid the temptation to work on marketing tactics until the STP (segment, target, position) is completed.

6. Poor problem/opportunity definition pitfall—Marketing research frequently is conducted without clear objectives and without an understanding of how the insights will be used. Management has only a fuzzy understanding of the problem or opportunity they want the marketing research study to address,

resulting in poorly framed objectives for the study. Often, key parts of the marketing strategy (segmentation, targeting, and positioning) and the marketing mix (product, price, promotion, and place) are neglected as management focuses on only one or two of these key customer insight areas.

When Iridium Satellite LLC launched its global satellite communications system in 1998, it had a clear vision of providing international business travelers with a single telecommunications system that would allow them to place and receive calls “at the ends of the earth.” Major effort was placed on developing an advertising campaign (promotion) that would attract the one million customers needed to break even. More than \$145 million was spent on the advertising campaign, which generated more than 1.5 million inquiries from potential customers on business reply cards. But Iridium failed to gain and/or act on insight into other keys areas of its marketing strategy and tactics:

- Were international business travelers the appropriate target market segment, given that the phone couldn’t be used inside office buildings, in moving cars, and in urban settings with tall buildings?
- Would the handset price of \$3,000 and the \$5–\$9 per minute phone service charges be a barrier to adoption and usage by the target market?
- Would the complexity of learning to use the Iridium phone (and its 220-page user manual) be a negative to international business travelers?
- Would the size and weight of the phone (described by many as a small brick) and the array of accessories and

adapters needed to make the phone work globally, be a negative to the target market?

Iridium appeared to be driven by the incredible technology they were developing, rather than insights from target customers. Iridium filed for bankruptcy in August of 1999, just nine months after the system became commercially available (See “Iridium: Lost in Space?” Harvard Business School case 5-404-751, November 2004).

Defining the marketing problem or opportunity along the entire marketing strategy (STP) and marketing tactics (the four Ps of product, pricing, promotion, and placement) continuum can ensure that customer insights are broad and deep, and will greatly decrease the chances of marketing failures.

The last four pitfalls revolve around functional best practices.

7. Rational consumer pitfall. Some economists believe that consumers act in a rational manner when they make purchase decisions, and that they have access to complete information on the product (as well as alternative products) when they make their purchases. For some products, such as automobile insurance and expensive digital cameras, this may be mostly true. However, for most purchase decisions, consumers make decisions involving emotional motivations with limited information. The reaction of loyal Coca-Cola drinkers to the launch of “New Coke” in 1985 shows the powerful role that emotions play in our relationship to brands. Kraft Foods Inc. has found that Oreos are not just good tasting cookies, but they are a “magical door which can transport us into a dimension of youth. Within seconds we can reflect back on our own childhood, when a simple pleasure like eating an Oreo cookie was part of every fun-filled day” (“Marketing Research That Pays Off,” Larry Percy, Haworth Marketing Resources, March 1997).

How large of a role does emotion play in your brand connection to target customers?

8. Start with a survey pitfall. By far, the biggest source of disappointment for some marketers is the confusion caused by beginning a customer insight effort with a survey. By skipping the preliminary steps of gaining a shared understanding of problem/opportunity, assessing the current knowledge base, conducting secondary research, conducting qualitative research, and doing questionnaire pretesting, the data generated by the survey is often incomplete, confusing, and leads to more questions than it answers. Quantitative marketing research surveys should only be conducted after you have developed a clear understanding of what is to be measured. You can’t measure that which you don’t understand. Never start with a survey.

9. Direct questioning pitfall. Many marketers feel that by asking customers directly about the importance of various product attributes, price sensitivity, and intent to buy new products, they will obtain valid, predictive results. Product

optimization decisions are made by asking target customers to rate the importance of a series of attributes. Consumers are asked directly what they would pay for a new product. Customers are asked how likely they would be to buy a new product, and all of the customers who say they “definitely will buy” and “probably will buy” the new product are expected to buy it in the first year.

In many cases, direct questioning of target consumers results in invalid, non-predictive customer insight. Direct questioning engages the conscious mind of the consumer, and leads to shallow, surface, rational responses that make sense to the respondent but often have little to do with their motivations for their purchase decisions. In his classic book, *How Customers Think: Essential Insights Into the Mind of the Market* (Harvard Business School Press, 2003), Gerald Zaltman asserts

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that “about 95% of our thought, emotion, and learning occur in the unconscious mind, without our awareness.” If this is the case, consumer insight efforts that rely on direct questioning will often lead to misleading results and poor marketing strategies and tactics.

So how can indirect marketing research techniques tap into the unconscious mind, to yield valid and predictive customer insights? Many indirect techniques have been developed and used successfully by academic researchers as well as research practitioners. Projective techniques, such as word association and sentence completion, have been used in marketing since the 1960s. One of the most powerful methods to tap into the unconscious mind of consumers is the patented Zaltman Metaphor Elicitation Technique (ZMET). This technique includes a number of steps, such as asking the consumer to gather pictures from magazines that capture the feelings and emotions involved in buying and using the product. The respondent is then asked to describe the pictures and tell a story about each. Students of the Kellogg School of Management (Northwestern University in Evanston, Ill.) who use this approach are amazed by the rich insights that can be obtained using ZMET.

Indirect techniques play a key role in quantitative research as well. Rather than asking consumers to rate the importance of individual attributes, conjoint analysis can be used to obtain preferences for bundles of attributes. Rather than asking consumers to respond to a series of prices for your product, a split cell design can be used where different groups of customers respond to the product gestalt, varying only the price across the groups of customers. Rather than using the

top two purchase intent boxes as an estimate of first year trial, realize that customers overstate their likelihood to buy. The sum of the top two boxes will result in an overly optimistic trial rate (especially for higher priced products), and these responses need to be adjusted downward.

In all consumer insight efforts, consumers generally show “unconscious” excess sensitivity toward whatever they think is being studied. It is important to keep the customer naïve as to the marketing purposes of the study. Circumventing the conscious mind with indirect marketing research techniques can lead to consumer insights that unlock the mind of the market.

10. Poor stimulus pitfall. Promising new ideas can be cast aside when the test stimulus materials do not do their job. Susan Lazar of Highland Park, Ill.-based The Lazar Group crystallized this point, based on her deep experience with qualitative research across many industries. Too often, initial concept boards contain unrealistic claims, overcomplicated or unclear benefit statements, and a general lack of application of the discipline of “positioning.” We have seen the same idea expressed with poor stimulus material and excellent stimulus material. Great ideas would have been killed if someone had not called out the problems with how the idea was expressed and insisted on re-testing.

Take the time and effort to explain the unique benefits of the offering to the target market—in language that is clear and believable, without overselling the offering. Plan on an iterative approach, where ideas and concepts can be reworked and new insight efforts conducted.

Many case studies exist where these pitfalls were ignored, and the misuse of customer input led to decisions that led to marketing failures across a range of industries. Avoiding these 10 pitfalls can allow the company to drive win/win decisions with customer insight that will result in sustainable profitability.

Customer Insight Tools

Customer-insight driven companies find that it is highly cost-effective to develop internal marketing research expertise for some customer insight, while seeking outside expertise for other customer insight. Exhibit 4 summarizes the source of resources for customer insights that derive from secondary data, exploratory approaches, descriptive approaches, and causal approaches.

Focus on the Customer

Gaining customer insight will not eliminate uncertainty in management decision making. But it can greatly improve the odds of gaining a sustainable, profitable competitive advantage. The odds can be further enhanced by ensuring that all decisions throughout the organization benefit from customer insight and a marketplace perspective, through a relentless focus on the target customer.

When the management team decides to drive the organization’s decisions through a deep understanding of the unful-

filled needs of target customers, sustainable competitive advantages, innovation, and revenue growth follow. They avoid the trap of commoditization by differentiating their company on benefits that are highly valued by target customers. They use customer insights as part of their knowledge base to develop planning principles and drive strategic direction, and avoid the many pitfalls on the road to becoming customer-insight driven. They understand that deep insights into the needs of their target customers will allow them to focus their organization on the CCDVTP mantra of marketing guru Philip Kotler of Kellogg: “Create, Communicate, and Deliver Value to Target customers at a Profit.” ■

About the Authors

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WHAT’S NEXT

March/April

in Marketing Management?

Marketing success is increasingly dependent on successful inter-firm collaboration that allows a firm to innovate and respond to change and achieve strategic marketing objectives. Although the ability to collaborate successfully with other firms is a strategic imperative, successful collaborations do not come easily. We’ll look at the capabilities and commitment needed to achieve positive results. Also forthcoming in March-April, we will learn ways to transform our sales forces in business markets from value spendthrifts into value merchants.