



# The Village Voice

Communities of customers and prospects are creating new challenges and opportunities.

By **Dominique M. Hanssens** and **Earl L. Taylor**

Today, marketers face an environment in which rapid changes—in communications technology and globalization of markets—are creating communities of customers and prospects, rather than a multitude of isolated customers. Our recent research at the Marketing Science Institute (MSI) in Cambridge, Mass., revealed this state of affairs.

## EXECUTIVE briefing

In the Marketing Science Institute's biennial survey, to identify research priority topics, member companies emphasized the changed environments in which they operate. Today's customers are increasingly connected—to suppliers and competitors, to each other, and to third-party information providers. Will the connected customer era change the paradigm for effective marketing strategy and science? Three topics are of greatest relevance: connecting innovation with growth, connecting customers with companies, and connecting metrics with marketing strategy.

Every two years, MSI asks trustees (who represent MSI member companies) to identify the business issues that could most benefit from academic research. These serve as the blueprint for MSI's research program, making certain that MSI-supported research is both rigorous and relevant. Ensuring a third "r"—readable—is the guiding principle of MSI's members-only conferences and publications, in which it makes findings accessible to the wider marketing community. (For more information, visit [www.msi.org](http://www.msi.org).) Moving beyond best practices, MSI aims to advance marketing science—and inform marketers about the "next practices" that will be essential for meeting emerging business challenges.

### The Connected Customer

Our research yielded an overarching theme, which we call "the connected customer."

**Suppliers and competitors.** We found that business customers and consumers are increasingly connected to their suppliers and competitors—not only by traditional one-to-many mass marketing, but also by one-to-one and many-to-many marketing techniques. This evolution—and the growing incidence of consumers who control the time and place of their media consumption—raises new questions about the management of customer and prospect touch points.

Of particular importance is integration of new media in the communications mixes of member companies. The latest search capabilities are changing the decision-making processes of individual and business customers and consumers. As one example: Marketers must consider marketing- and relevance-induced positioning's impact on search engines, such as Google and Yahoo, as part of their marketing mixes. In the business-to-consumer markets, auctions have transformed the traditional notion of the marketplace. In B2B markets, buyers and sellers are meeting in unparalleled ways—via request-for-proposal auctions.

**Each other.** We discovered that business customers and consumers are increasingly connected to each other, through technologies such as mobile telephony, the Internet, and the resulting countless special-interest groups that cross national borders. Opinion leadership and word of mouth aren't new concepts, but the speed and power of their effect on individual behavior are dramatically heightened. Weak ties become

significant in this social-network context, as marketers strive to identify individuals with broad influence through many network connections. This highlights a seemingly counterintuitive phenomenon: Loyal customers—whose networks comprise like-minded counterparts—might be less effective than nonloyal customers, in expanding markets via word of mouth.

Also important here is the distinction between augmented and organic (or spontaneous) word-of-mouth activity. Marketers can create buzz by investing in social networks that augment their efforts. These can include sponsored forums or viral marketing campaigns that rely on—and encourage—the explosive growth of consumer generated media. Organic word of mouth is less amenable to management control, but marketers need to understand how word of mouth is generated and how it affects their business performance.

**Third-party information providers.** We learned that business customers and consumers are increasingly connected to third-party information providers, through a variety of product review and price comparison services. The resulting transparency in markets challenges prevailing beliefs about the significance of brand image and the role of personal selling. It also expands the definition of best value, as consumers now have access to aggregated information (e.g., about customer satisfaction levels with different retailers). The relationship between a retailer's customer satisfaction score and its ability to charge a price premium is but one important research question.

In this connected environment, customers are more informed and harder to please. But they also leave a more visible evidence trail, in the form of vastly improved databases. This explosion, in potential customer information, challenges traditional analytical and reporting techniques for turning such information into insights and market intelligence. However, the scope, pace, and sources of this information also create opportunities for better and more timely marketing decision support, to drive profitable growth.

In short, the connected customer era might change the paradigm for effective marketing strategy and science. Thus, MSI is keenly interested in leading-edge research that examines different aspects of this new marketing environment. In particular, it encourages research that not only bridges the gap between theory and practice, but also makes connections among its priority topics. To help create such connections,

marketing science can draw on economics, psychology, sociology, anthropology, and other distinct disciplines—such as design, and those emerging across traditional boundaries (e.g., neuroscience, behavioral economics).

For an interdisciplinary understanding of the connected customer, MSI identified three issues of greatest relevance for all member companies—whether (1) B2B, business-to-consumer, or service sectors, or (2) domestic or international in scope. These “capital topics” are connecting innovation to growth, connecting customers to companies, and connecting metrics to marketing strategy.

## Innovation and Growth

Per our research, member companies continue to view innovation as the prime engine of growth. In a connected

world, customers play a much more direct role in shaping innovation strategy and execution. At the market level, there are substantial opportunities for innovation in emerging global markets, and in new demographic/lifestyle segments of established markets. At the development level, companies need customer insights and active input to drive innovation for product and service design.

This topic tied for first place in member company votes. Member companies recognize that innovation depends on a continuous process of gleaning information from customer interactions. These are increasingly online and in real time. Therefore, companies are able to engage customers at the fuzzy front end of innovation, to cocreate products and services. Some member companies are even exploring virtual (online) worlds, as a faster and more efficient way of develop-

## Special-interest priority topics

**Capital topics represent areas of concern for all marketers. However, different segments of the MSI community have specific interests. We identified research issues that are of relevance to them. At least 40% of respondents in every segment gave each of the following topics priority marks.**

### Marketing Strategy

- engaging customers through innovation and design
- role of metrics in supporting marketing strategy
- aligning product innovation with customer expectations
- creating a culture of innovation
- impact of marketing actions and strategy on firm value
- organizing for effective innovation
- marketing's role in business development
- segmentation for emerging markets

### Marketing Metrics

- measurement of the impact of new media
- metrics for sustainable profit growth
- separating signal from noise in detecting emerging external trends
- return on marketing and marketing research
- role of marketing dashboards
- integrating financial and nonfinancial performance metrics

### Customer Management

- use and value of customer loyalty metrics
- customer loyalty across multiple products or services
- impact of brand equity, channel equity, and customer equity on firm value
- relationship between brand value and customer value
- service innovation
- how loyalty relates to customer satisfaction and firm profitability
- true loyalty vs. marketing-induced loyalty
- combining behavioral and attitudinal data to predict loyalty

### Brand Equity

- indicators of brand health
- communications that create emotional connections
- understanding the emotional components of brands
- optimizing brand portfolios

### Marketing Implementation

- characteristics of successful marketing teams
- creating a customer-centric organization
- moving from product-centric marketing to customer-centric marketing
- How do marketers learn?
- key competencies of good marketers
- enhancing collaboration between sales and marketing

### Marketing Research Tools

- role of social networks in consumer decision making
- predictive aspects of marketing mix models
- use of virtual worlds in marketing research
- Internet-based marketing research
- cognitive science applications for marketing research
- text analysis of blogs (Web logs)
- prediction markets as alternatives to traditional marketing research
- radio frequency identification-based research opportunities

A three-stage process produced these 2006-2008 research priorities: (1) A series of focused discussions at trustees' meetings and MSI conferences generated an initial set of topics, (2) an open-ended survey asked trustees to elaborate on these and suggest others, and (3) MSI sent a quantitative survey (with constant sum allocation and ranking exercises) to all trustees, resulting in record participation across a wide range of business sectors and markets.



ing and testing new offers. At the commercialization level, member companies need to better understand the structure and dynamics of social networks—online and offline—that are critical to diffusion of innovation.

## Customers and Companies

Realizing that their customers have improved opportunities for switching suppliers or brands, member companies are looking for methods of engaging them and thus strengthening loyalty. Incentive and reward programs are designed to do this. But as typically executed, can companies maintain them without damaging long-term profitability? Companies are interested in discovering fresh ways of creating and sustaining emotional connections with the brand. This goes well beyond traditional advertising; companies aim to actively involve consumers in experiences that will resonate with them.

Customer advocacy strategies, in which companies align themselves with consumers' interests, are of significance here. For example: A health campaign centers on consumer well-being, but it might also create a "thought leadership" association for the company initiating it. Similarly, a marketing campaign might strive to educate consumers about an entire product category. In fact, as market mechanisms take over in areas

of societal importance (e.g., health, education, retirement savings), marketing's expanded role offers an opportunity for it to redeem itself—to those perceiving it as narrowly focused on persuasive advertising for commercial brands.

## Metrics and Strategy

MSI's recent efforts—to stimulate research, conferences, and publications on marketing metrics—have been quite successful. Member companies are asking it to tackle the next step: connecting these metrics with sound marketing strategy, business performance, and company value. Indeed, the other topic tying for first place in member company votes was the question, "What is the impact of marketing metrics and models on marketing decision making?" This and related questions need answers in a connected customer context. Customer engagement strategies might boost customer satisfaction and loyalty, but marketers need a better understanding of how these relate to superior business performance.

Increasing media fragmentation, which offers many more choices for companies' communications mixes, intensifies this challenge. Marketers must distinguish between investments that have a short-term lift and investments that contribute to long-term business performance, in the form of enhanced brand and customer equity. This task is paramount. Unless marketers can demonstrate—through the right metrics—that marketing contributes to superior business performance, it won't have a seat at the table.

MSI will launch two special initiatives this year, to stimulate research that addresses these emerging questions: one on social networks and new media, and one on marketing and company value.

## A New Environment

As in past MSI research priority-setting cycles, the issues that member companies highlight represent evolutionary trends. Growth through innovation, customer engagement, and marketing productivity are topics of sustained interest. What member companies emphasize this year, however, is the change in their operating environments. The connected customer era presents a fresh set of challenges and opportunities for marketing. ■

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