Harvard Business Review

MARKETING IN THE DRIVER'S SEAT: USING ANALYTICS TO CREATE CUSTOMER VALUE

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We all have so many new opportunities today to be relevant and useful as consumers turn to the closest device for answers to their wants and needs.

And consumer expectations are higher than ever: they expect to get what they want, when they want it. At Google, we refer to those intent-rich moments—when someone is looking to learn something, go somewhere, do something, or buy something—as "micro-moments."

To win hearts and minds (and dollars), marketers must be able to identify those micro-moments and act on them smartly. They need data and analytics strategies that will show them both what consumers want in these moments and how to drive new and better micro-moment experiences for customers.

We asked Harvard Business Review Analytic Services to help us all understand this opportunity. They've pulled together academic research on the kinds of revenue and profit opportunities that flow to those who work to put data and analytics into practice. They've also spoken with experts from many industries to show how companies are already using data to delight customers in the moments that matter.

Not surprisingly, the companies that shine go beyond analytics and measurement; they build insights they can use. Their approaches vary widely, but all of them use their insights to build truly relevant customer experiences. They're there when consumers are looking for them, and they're useful in compelling ways that their less analytics-savvy competitors simply can't replicate.

That, simply put, is why they're leading the pack. And in a world of ever-growing channels and higher-than-ever consumer expectations, it's an approach that will surely continue to pay major dividends.

Lisa Gevelber
Vice President, Marketing
Google

MARKETING IN THE DRIVER'S SEAT: USING ANALYTICS TO CREATE CUSTOMER VALUE

Competing on analytics is getting tougher. As the quantity of data continues to mount, companies often struggle to harness it. Analyses often lead to more analyses, and many organizations can't turn data into action.

At the same time, marketers are under pressure to integrate multiple sources of customer and marketing data and take the lead in improving the customer experience. Time isn't necessarily on marketing's side. As Conor McGovern, managing director of Accenture Analytics puts it: "If marketing doesn't step up to the plate, another department will."

To help marketers confidently take the lead, Harvard Business Review Analytic Services interviewed academics, executives, and other experts to find out how leading marketing organizations are integrating customer and marketing data and using it to boost their company's performance.

Although the volume of data continues to burgeon, the fundamentals of executive decisions aren't really changing. Business leaders must still understand market dynamics and determine where and how their companies can best compete. Many marketing organizations, however, focus too much attention on questions such as who "owns" analytics or where the next crop of data scientists will come from. Although analytics is a complex endeavor that requires specialized skills, the biggest challenge that companies face isn't talent. It's the ability to move from data to action.

In addition, most organizations are integrating only a few sources of customer and marketing data. Those that leverage multiple sources and focus diligently on demand generation have significantly stronger business performance, especially total shareholder return. What lies at the heart of that performance isn't using analytics solely to improve marketing efficiency or effectiveness. Although refining marketing activities to garner the greatest results from every investment is crucial, marketing organizations at the head of the pack are going much further. They are using analytics to spur their companies to create new value for customers at every touch point that matters.
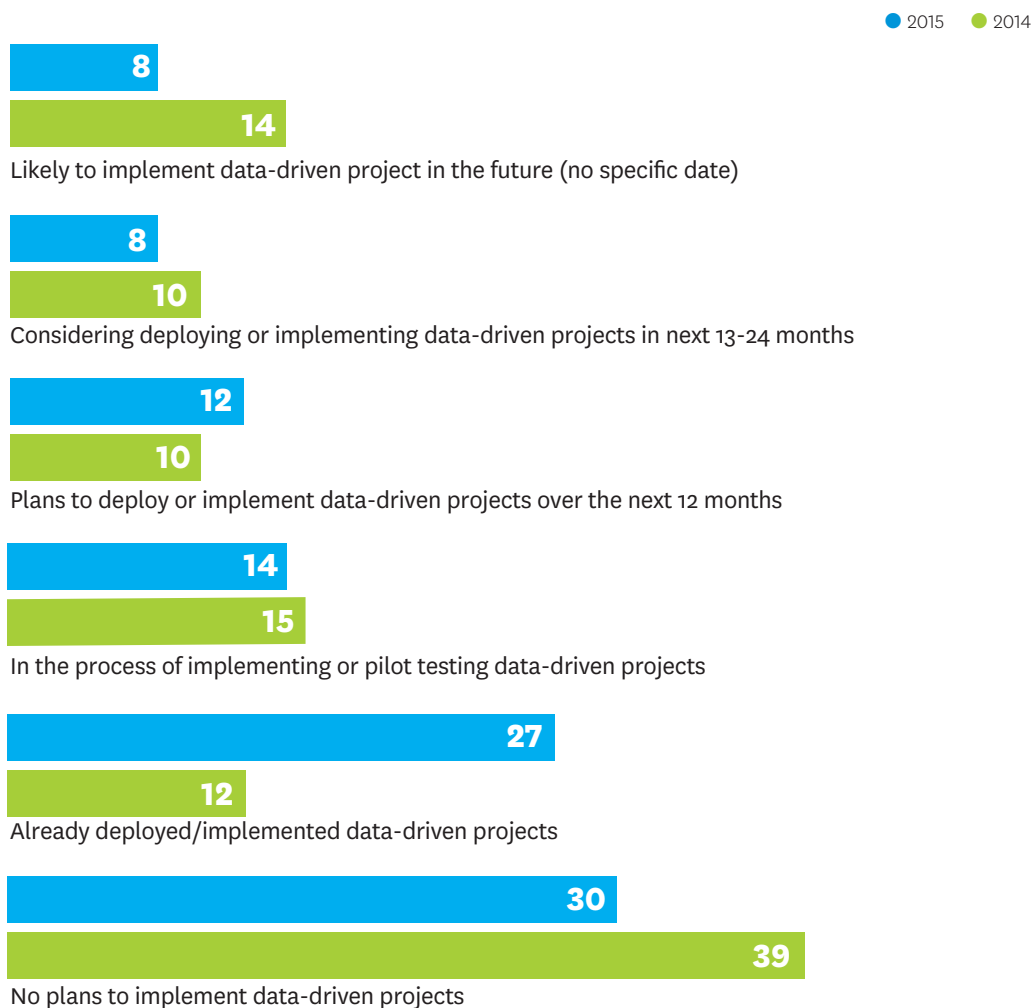
HEAVY TRAFFIC ON THE PATH TO ANALYTICS VALUE

More and more companies are using analytics. According to a 2015 IDG Enterprise report, the number of organizations that have implemented a data-driven project soared by more than 100 percent between 2014 and 2015. figure 1

FIGURE 1

INCREASED DEPLOYMENT, DECREASED HESITATION

Percentage of respondents' organizations involved in data-driven projects

● 2015   ● 2014

8
14

Likely to implement data-driven project in the future (no specific date)

8
10

Considering deploying or implementing data-driven projects in next 13-24 months

12
10

Plans to deploy or implement data-driven projects over the next 12 months

14
15

In the process of implementing or pilot testing data-driven projects

27
12

Already deployed/implemented data-driven projects

30
39

No plans to implement data-driven projects

SOURCE 2015 BIG DATA AND ANALYTICS (IDG ENTERPRISE)

At the same time, a 2015 *MIT Sloan Management Review* study found that as more organizations develop analytics capabilities, the number of companies that are gaining competitive advantage from analytics is declining. figure 2 Analytics gave companies a competitive edge early on. As competitors built similar capabilities, however, that advantage eroded. To keep forging ahead, companies need to continually develop more sophisticated analytics capabilities and applications.[1] Attuned to the challenge and the need for marketing to up its analytics game, researchers at INSEAD and PwC's Strategy& found a strong correlation between a company's maturity in using analytics to generate demand and its overall performance. figure 3 The study focused specifically on customer and marketing data, including:[2]

FIGURE 2

COMPETITIVE ADVANTAGE OF BUSINESS ANALYTICS

Percentage that believe business analytics creates a competitive advantage in their organization

37	2010
58	2011
67	2012
66	2013
61	2014
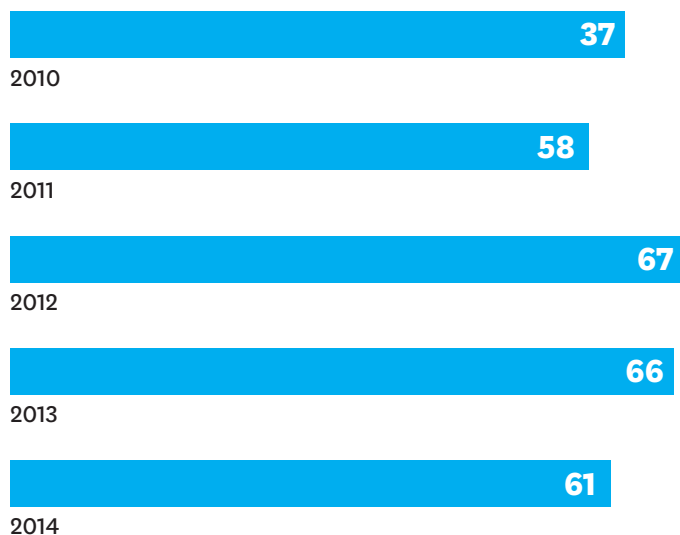
SOURCE MIT SLOAN MANAGEMENT REVIEW 2015

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

2. Customer analytics including lifetime value and loyalty calculations, response and purchase propensity modeling, and micro segmentation

3. Marketing analytics such as demand forecasting, marketing attribution models, and market mix modeling and media budget optimization

4. Sales analytics including pricing elasticity modeling, assortment planning, and sales territory design

5. Consumer analytics including surveys/questionnaires, customer experience research, and customer satisfaction/advocacy modeling
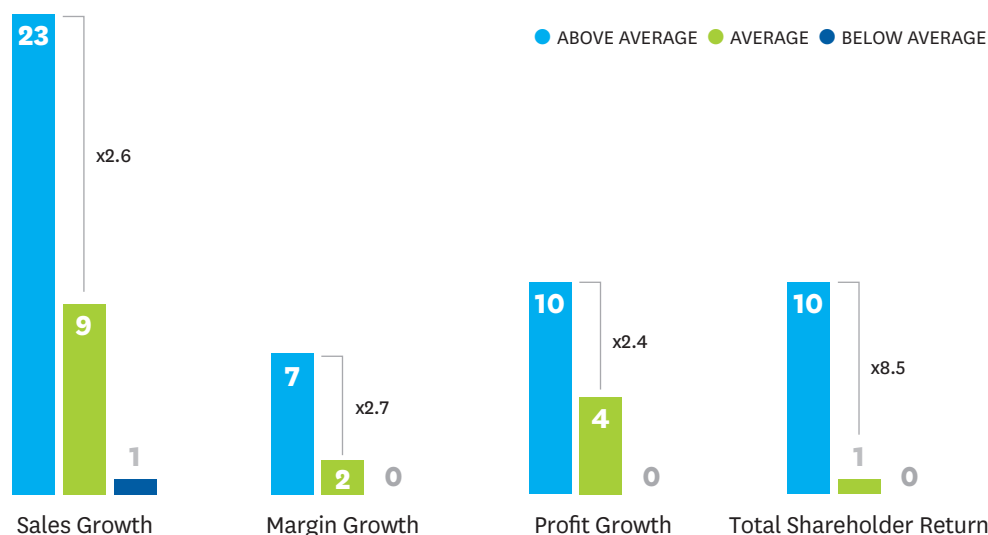
A follow-on study found that the number of sources of marketing and customer data that a company integrates also correlates strongly to performance vis-à-vis competitors.[3] "The most successful companies use analytics to understand how well they generate demand and the quality of the customer experience they provide," says Joerg Niessing, a marketing professor at INSEAD and coauthor of the studies. "If you want to have a major impact, you need an integrated approach to see what is happening at all customer touch points and understand how effective you are."

Aware of the challenge and the growing customer demand to be treated as a market of one, MetLife is integrating customer data from all its US operations to anchor a fundamental shift from a product-centric to customer-centric entity. MetLife offers multiple products, ranging from insurance to

DEMAND ANALYTICS AND COMPANY PERFORMANCE

Above-average performers outpace peers by 2–3 times on sales, margin, profit, and TSR.

GROWTH OVER THE LAST THREE YEARS COMPARED TO COMPETITORS

● ABOVE AVERAGE ● AVERAGE ● BELOW AVERAGE

Sales Growth: 23, 9, 1 — x2.6
Margin Growth: 7, 2, 0 — x2.7
Profit Growth: 10, 4, 0 — x2.4
Total Shareholder Return: 10, 1, 0 — x8.5

NOTE: COMPANY PERFORMANCE IS SELF-REPORTED BY RESPONDENT

SOURCE STRATEGY&/INSEAD DEMAND ANALYTICS SURVEY (AUGUST 2014)

investment services, through stand-alone business units. Each is responsible for its own marketing and maintains its own CRM system.

To gain a single view of its customer base and ensure the optimal product offering and most effective communication strategies are being used, MetLife is integrating everything from email response rates to data from in-person meetings with financial advisors. "Data is the tool that allows you to get a complete picture of a customer," says Melissa Grady, vice president of digital acquisition and measurement. "We need to make decisions at the corporate level such as who should communicate with our customers, when and how. We need to integrate data to do that."

FXCM integrates multiple sources of customer data to create a very granular view of the comfort that prospects have with its complex product and the customer journey they travel. The publicly traded company with annual revenues of more than $400 million offers an online platform for day traders who want to branch out into forex (foreign currency trading). Although the company's customers are financially savvy, forex may be somewhat new to them and FXCM must carefully nurture its prospects. The first major stop in the customer journey is the creation of a demonstration account where users can practice trading with US$50,000 of hypothetical money. As prospects experiment with the platform, FXCM monitors what they are doing and how successful they are. The data drives a series of targeted emails including insights and access to online learning. FXCM then combines responses to these efforts with demographic information to score the prospect's likelihood of opening an actual account. "We are constantly analyzing all the data we have about a customer to learn about them as quickly as possible," says Ross Soodoosingh, senior vice president of marketing and business development. "It's a process of continuous improvement."

TURNING TO THE NUMBERS TO CREATE CUSTOMER VALUE

Many companies are not gaining competitive advantage from analytics because they are still focused on product-centric strategies, according to Peter Fader, Francis and Pei-Yuan Chia professor of marketing at the Wharton School of the University of Pennsylvania. These strategies focus on developing new products and then boosting profits by seeking economies of scale in marketing and operations. "On the cost side, capabilities are amazing," he says. "But today, companies face product commoditization as well as customers who are smarter and more demanding than ever before. Trying to compete by managing costs isn't enough anymore."

To illustrate the gap, Fader compares airlines to hotels. Ironically, airlines were the early trailblazers of customer analytics. Decades ago, they pioneered sophisticated analyses to drive dynamic pricing. Airlines also introduced loyalty programs to identify and reward the best customers. But since introducing those innovations, airlines haven't invested in much that adds new value to the flying experience. Until the introduction of premium economy, for example, airlines had done very little to improve the coach product. Contrast airlines with hotel chains such as the Ritz-Carlton Hotel Company. Legendary for its mission of "ladies and gentlemen serving ladies and gentlemen," Ritz-Carlton has invested heavily in everything from room décor and comfort to tracking special requests such as the need for nonallergenic pillows and providing them on the guest's next stay.

Few companies, however, are applying formal measurement of customer value to drive and evaluate these changes. To illustrate, Fader compares Netflix to large cable providers. For the most part, large cable companies still have a product-centric mindset and use sophisticated analytics to drive scale and sell ever-larger content packages to greater numbers of customers. Netflix, on the other hand, diligently mines customer data to create programming and other services that delight their most valuable subscribers. When Netflix decided to produce the series *House of Cards*, it dug deeply into viewer preferences—down to how often scenes from movies with potential stars for the show were being replayed. While *House of Cards* has been a hit that attracted more than 4 million new customers and created buzz among millions of prospects,[4] it wasn't designed to be a blockbuster. The goal of the series was to bring value to Netflix's best customers and attract more like them. "Netflix is not using data just to sell more content to more people," says Fader. "They use analytics to create greater value for their best subscribers, which drives greater loyalty, reduces churn, and drives new subscriptions."

CREATING CUSTOMER VALUE—TALES FROM THE FIELD

Erich Joachimsthaler, author of *Brand Leadership: Building Assets in an Information Economy* and *Hidden in Plain Sight: How to Find and Execute Your Company's Next Big Growth Strategy,* says that marketing organizations now have access to the tools they need to integrate data and create a 360-degree view of customers. The challenge, however, is mastering the use of those tools. Lenovo is a prime example of a marketing team that uses analytics to go beyond analyzing market data to driving the company to create better value for its customers.

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

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

On the ground, the team integrates data from multiple customer touch points to drive increasing customer loyalty. Sivadasan has found that there are three main drivers of customer satisfaction that correlate to loyalty. The first is the quality of the online experience, and Sivadasan's team tracks important variables such as how easy it is to find product information and whether Lenovo provides sufficient follow-up on the status of an order. The second driver is meeting commitments such as how often the company misses promised ship dates.

The third driver is the experience with the product itself. By analyzing social media and direct customer feedback, Lenovo's ecommerce team helps the company improve its products. As an example, Sivadasan points to Lenovo's tablet offering using a Microsoft operating system. Originally, Lenovo launched its tablet in only an Android version. By monitoring customer sentiment globally, the analytics team discovered a significant opportunity for a tablet with a Microsoft operating system. "We were able to act on that data," says Sivadasan. "The Microsoft version was very successful."

HCA Healthcare is another example—and a notable exception in an industry often criticized for the quality of its customer experiences. HCA's digital marketing group provides marketing services to the corporation's 168 hospitals, 115 freestanding surgical clinics, and 830 physician clinics in the US.

A primary responsibility of the digital marketing group is assessing the impact of online marketing efforts on key sources of profit such as new patient growth. To assess the impact, the group tracks responses to campaigns, content people consume on its web sites, and which paths drive the greatest number of patients contacting one of its medical centers.

But the group also plays a large role in reputation management, which drives improvements to patient experience. For instance, it tracks and analyzes social media comments and sentiment to identify the improvement needs in areas such as physician bedside manner, operations, and the quality of ancillary services such as valet parking. The efforts have led to improved services and interventions when patient complaints aren't properly handled.

The digital marketing group is also a source of best practices such as guidelines for dealing with angry patients and protecting patient privacy online. "We are more than an information hub," says Aaron Clifford, director of web and social services. "We also provide tool kits and best practices to help make the best use of the data, digital platforms, and marketing operations."

MARKETING IN THE DRIVER'S SEAT

A recent Gartner study found that improving customer experience is the number one expectation CEOs have of their marketing executives.[5] But to take charge of the customer experience and steer the company to value-adding activities, Joachimsthaler believes that marketing organizations must broaden their scope beyond communications. They must also abandon much of the traditional approach to brand management.

"In traditional brand management, marketers are responsible for specific product lines," he says. "They have to compete with each other for the attention of the organization and often for the same customers." Rigid silos are the consequence, which makes it difficult, if not impossible, for marketing to connect the dots of the customer experience and drive its improvement.
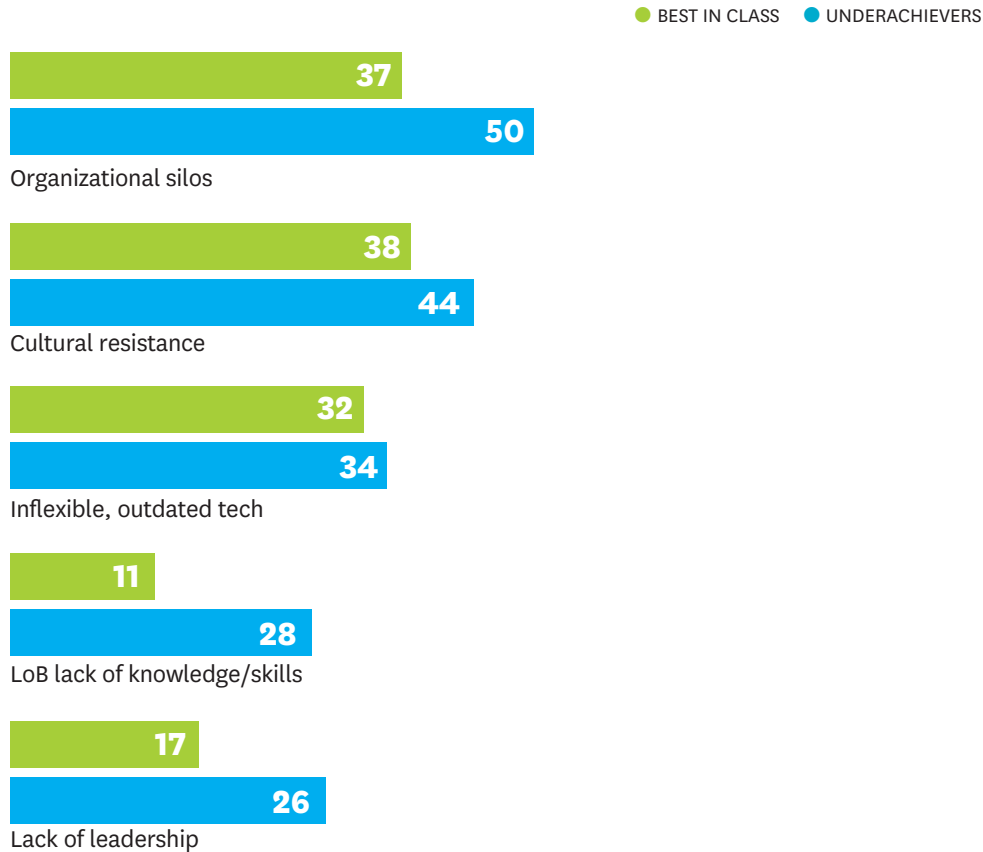
A 2015 Harvard Business Review Analytic Services study put numbers to the point. Organizational silos are the biggest barrier to improving customer experience and best-in-class companies—those with strong financial performance and competitive customer experiences—are more likely to have broken down those silos than are other organizations. figure 4

FIGURE 4

BEST IN CLASS OVERCOMING BARRIERS TO CX IMPROVEMENT

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

● BEST IN CLASS   ● UNDERACHIEVERS

37
50
Organizational silos

38
44
Cultural resistance

32
34
Inflexible, outdated tech

11
28
LoB lack of knowledge/skills

17
26
Lack of leadership

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

To break down barriers, Joachimsthaler says, some companies are eliminating enterprise marketing units and vertically integrating the function within each line of business. Vertical integration makes it easier to expand marketing's role beyond communication and encompass a diligent focus on customer experience. Adidas made the change and created separate marketing departments within business units focused on specific sports such as football.

When marketing was an enterprise function at Adidas, it served multiple products and couldn't focus heavily on any. The separation also led to tensions between marketing and business units, which easily became finger-pointing matches when problems arose. To protect itself, marketing would test more than needed to make sure it could show that it wasn't the problem. With marketing integrated within business units, marketers have become partners and are focusing deeply on the intricacies of the sport, culture, season, and events relevant to the business unit and its audience.

Similarly, a European beverage company assigns marketing groups to consumption moments, such as a night out, instead of brands and channels. The goal is to embed marketers deeply into a particular customer experience and focus them on each step of the customer journey. "These companies realize that marketing is about more than communications," says Joachimsthaler. "Marketing needs to connect the dots across all customer-facing functions of a company, including partners, in order to deliver real value instead of just communicating the brand."

MORE DATA SCIENCE—NOT DATA SCIENTISTS

As companies grapple with the role and structure of marketing in the age of data, they often get bogged down with questions about who should "own" analytics and where it should be housed. But such questions miss the main point, according to INSEAD's Niessing. As he describes it: "Executives still have to make the same strategic decisions that they have always made. They need to understand market dynamics and what competitors are doing—and then determine how the company should react. The only difference is that we now have a great deal more data and analytics to help make these decisions."

Marketing organizations do need a team of analytics professionals who understand data and the technologies that integrate it. But beyond that, executives should place more emphasis on data science than on data scientists. "Data scientists are technicians who are very good at managing and manipulating data," says Wharton's Fader. "Data science is about looking for patterns, coming up with hypotheses, testing them, and acting on the results."

But instead of building data science capabilities, companies often bring on increasing numbers of analytics specialists. The result is often what Fader calls a "data firehose" instead of valuable data that help answer specific questions. Business leaders have practically no time to think through the implications of the data because so much is being given to them.

Fader acknowledges that businesses are acting more quickly today. But he points out that companies such as Harrah's Entertainment (now Caesars Entertainment) became analytics legends through a disciplined approach to analytics when time was definitely not on their side. "Competitors with deep pockets were handing Harrah's its lunch, and the company was desperate," says Fader. "They needed to figure out how to zig where competitors were zagging."

Through a disciplined use of analytics, Harrah's aggressively experimented to find out who their best customers were and what would increase their business with the casinos. For example, Harrah's discovered that its best customers weren't the high rollers most casinos targeted. Their best customers were retired professionals such as doctors and lawyers.[6] The focus paid off—the loyalty program ended up generating more than 80 percent of the company's gaming revenue.[7] "Harrah's prevailed in the end by using a disciplined approach to hypothesis development and experimentation," says Fader. "The discipline allowed them to move quickly and effectively."

McGovern at Accenture Analytics has also found that a lack of talent isn't the primary challenge to achieving competitive advantage with analytics. Research conducted by Accenture found that the biggest stumbling block is moving from data to insight to action. To pursue an effective analytics strategy and overcome this barrier, executives should clearly define business problems, what the analytics solutions need to accomplish, and how the outcomes will be measured. These definitions can determine what data is needed and when. "If you can't make the rubber hit the road with a disciplined approach to analytics, you will end up with customer experiences that aren't as effective or engaging as they could be," he says. "Like any source of information, you need to embed and ingrain analytics into decision-making processes to obtain the desired results."

ENDNOTES

1   David Kiron, Pamela Kirk Prentice, Rene Boucher Ferguson, "The Analytics Mandate," *MIT Sloan Management Review*, May 12, 2014

2   James Walker and Joerg Niessing, "The Demand Analytics Premium," *Strategy&*, October 14, 2014

3   "Making Better Business Decisions by Leveraging (Big) Data," INSEAD Research Study, 2014

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5   "CMO Leadership, Accountability and Credibility Within the C-Suite," Gartner, December 2014

6   "Gary Loveman and Harrah's Entertainment," Stanford Graduate School of Business, November 4, 2003

7   Michael Bush, "Why Harrah's Loyalty Effort Is the Industry's Gold Standard," *Advertising Age*, October 5, 2009

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