

Today's Marketing Challenge: Turning the Data Deluge into Competitive Advantage

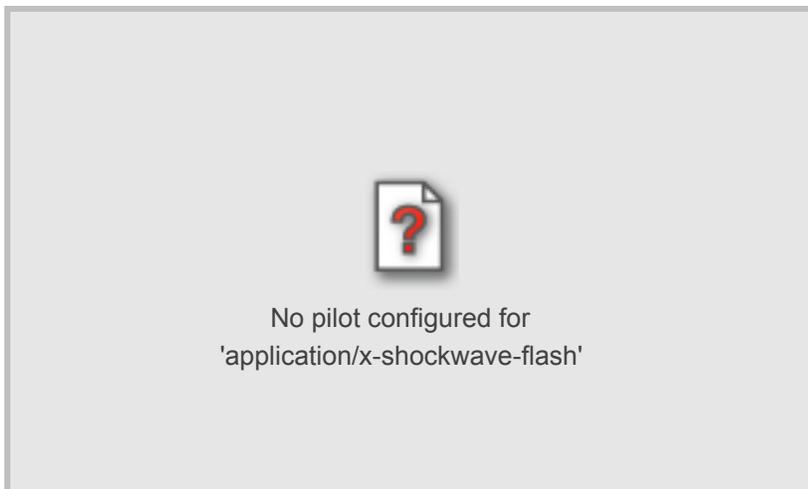
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In a new paper titled, "[Closing the Marketing Capabilities Gap](#)," Wharton professor [George Day](#) addresses the disconnect between the demands of markets and the ability of firms to meet those demands. Such a gap, he points out, is "costing firms profitability now and competitiveness in the future." Using Day's paper -- and also a [new IBM study](#) based on conversations with 1,700 chief marketing officers worldwide -- Day and colleague [David Reibstein](#) talked with Knowledge@Wharton about the growing flood of data, new knowledge sharing technology, the socially networked and ever demanding consumer, and how some companies are successfully building their customer base, among other topics.

An edited transcript of the conversation follows.



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Knowledge@Wharton: George and Dave, thanks for joining us. George, your paper is called “Closing the Marketing Capabilities Gap.” What exactly is that gap and why is it so important that companies address it?

George Day: As I reflect on the title, I am beginning to think a better title would be “Narrowing the Marketing Capabilities Gap.” The gap is a consequence of two things. One is what you might call a data deluge, the information explosion, where we have a doubling of the amount of data – not information, necessarily, or wisdom – but the amount of data stored every 18 months. This is an exponential increase in the data available to companies. At the same time, our best guess on the ability of companies to actually use this data ... is that it is growing at about two percent a year. That’s the gap I’m looking at here. So we’re overwhelmed, we’re confused by the consequences of a term I love -- which is the “splinternet” -- [meaning] the fragmenting media, and by the tremendous decomposition of mass markets into little niches. And, of course, media choices are proliferating rapidly. It’s overwhelming companies and also individuals. We’re all struggling with this tremendous overload.

Knowledge@Wharton: Dave, what are the traps that companies fall into trying to manage all this data?

David Reibstein: One of the things that I think is really interesting is thinking about the history of how this gap happened. What George was just referring to, which is absolutely right, is this huge proliferation of choices that customers have, options that companies have, and then the abundance of data. But let's back up just a little bit and think about who was in marketing and who has been doing this in the past. Much of it has been people who have risen up through sales and have a sales orientation. They were very good interpersonally, very good at working and talking to customers. Or they were people who could identify and feel what the customer felt. But what's happened is we don't need to rely on the "pearls of the tongue," or the empathy that the marketer needs. We have information.

So the new marketer today is very different from the marketer of the past. I think one of the traps is falling into doing things the old way and trying to unlearn the way that we used to do marketing. Today it is so much more data driven.

Knowledge@Wharton: There are many new developments in knowledge sharing technology, like micro-targeting and communities of users and all the social networking tools. What are the best examples of these technologies and who is using them in the most advantageous ways?

Day: Let me set the frame for a broader way of thinking about how companies cope, and then see how they're able to take these technologies. I have two ideas. One is that technology is creating the problem. It's also going to be the solution to the problem. So social networking, knowledge sharing, mini-Google's that companies are creating for their own data bases are obviously the paths to the solution. But they will only work if the organization is inclined to use them and is prepared to use them.

So I am looking at three different capabilities that companies will need in order to effectively use all this new technology for sorting through, sharing and interpreting data. The first one is what I call "vigilant market learning." That is the ability to see things sooner, to capture the right information, as opposed to treating all information as equally important. It is sorting out which signals you really should pay attention to. That's a significant capability – it requires a [certain kind of] leadership, highly networked and so forth. Second is the notion of adaptive market experimentation. This is a capability companies have to master. And where it's B to B [business to business], B to C [business to consumers], it's companies like Quicken doing 600 experiments every year with its customers, and learning systematically from it. So we have a lot of interesting tools on predicted analytics and so forth that our colleagues Peter Fader and Eric Bradlow are working on here to try to unlock the lessons from those experiments.

But the other thing I think is important about companies that use these tools well is they don't try to do it all themselves. What I've been fascinated by is what I'm now calling "open marketing," which is a direct lift from "open innovation." This is the notion that if you want to do search engine optimization or predictive analytics, it's probably not a good idea to try to build that capability in-house. Rather, you find a really good partner who is able to help you with this, to apply this – and has the right kind of talent. The reason you have to partner in part is that the talent is very hard to find. In an era of high unemployment, there's a desperate need for qualified, creative, analytical people -- kind of the two ideas coming together. But we have a talent crisis, and companies are struggling to find people to do that. The answer, I think, is to find the right partners.

Knowledge@Wharton: Who are these partners? Are they other companies? Are they individuals that you hire?

Day: There are at least 12 kinds of partners, anywhere from specialists ... all the way to one of the big three integrated advertising agencies which have a host of creative shops, marketing research firms with the specialized talent built into them that they can spread around and build up experience in lots of different situations.

Reibstein: So you asked, Robbie, specifically who's doing a good job of trying to use the new tools and trying to take advantage of them. George mentioned Quicken. Let me add to that. I would say Amazon falls in that category. They're constantly experimenting, and the web page that you get and the web page that I get might be very, very different -- not just based on our history, but because we're coming in and they're going to try something different. It's a whole test-and-learn mentality. I'm going to test something out, see what works, deploy it. And that could happen all within the same day. In fact, you could be doing hundreds of these every day. Say I buy a blue sweater and you buy a blue sweater. You come back and

they're going to give you a yellow sweater and see if you [go for] it. That's what it is that is being featured. And for me they're going to give me – what would go well with a blue sweater? Black slacks. And they're going to see which works better. Do that quickly with a couple thousand people, learn from that, deploy.

Knowledge@Wharton: In fact, in your paper, George, you quote [Amazon CEO] Jeff Bezos as saying, “Rather than ask what we're good at and what else we can do with that skill, ask who are your customers, what do they need? And then say we're going to give that to them, regardless of whether we have the skills to do so. And we will learn those skills.” But Amazon has the luxury of being able to do these millions of tests to find out what consumers need, even before consumers themselves know what they need. Other companies don't have that capability.

Reibstein: There's an interesting property that Amazon has and other companies have that are taking advantage of this ability -- which is dealing with customers individually. So there are lots of companies that sell through distributors, who sell to other distributors and are not really in touch with the end customer. Amazon is in touch with exactly who their ultimate customer is. Certainly online businesses have that ability. But actually, if you think about it, cellular companies have that ability as well, because they know exactly who that individual customer is. Banks have that capability. [They are] companies that have the individual level data, which takes us back to the earlier problem -- this abundance of data. The question is, who's able to really take advantage of it.

Let me go to the other extreme, which is to take a company like Unilever. Unilever sells through ... distributors to retailers or directly to retailers, who end up then selling to consumers. They don't have that individual consumer level data.

But what they have started doing, and doing very effectively, is working on a lot of social media. The whole Dove campaign that got tons of publicity was something that was primarily created online. They created ads that were never shown on broadcast television. It was really by spreading [the message] through YouTube and through other social media that [they were able to] reach a massive audience. It has been a very clever [strategy] for a company that doesn't have that individual level data.

Knowledge@Wharton: George, there's a follow-up question to that. So consumers are obviously increasingly vocal, chatty – they get online and they're constantly spreading their opinions about products and services. How can companies figure out which comments are important and need immediate action, and which are just noise?

Day: There's a lot of interesting technology to, first of all, capture these blog comments, and then edit them and see if there are patterns. So if you go on to Google, you can see patterns of recurring use of a term. What you're looking for is literally clearing out all of the noise and concentrating on what's the signal that we really want to look at. It might be a complaint about product performance. I remember one of the very earliest ones was an experience Procter & Gamble had as it brought out – remember Febreze?

Knowledge@Wharton: Yes.

Day: Everybody knows Febreze. It almost failed because, early in its launch, a woman got on, blogged and said, “Febreze killed both of my canaries.” This spread through the Internet. P&G had a very good way of capturing that. They figured out who she was, because they sent an e-mail saying, “What can we do?” They rushed a team out, talked to her and after a while discovered – and she agreed – that the canaries just died of old age. This meant they were able to stop that really threatening message going out over the toxic effects of Febreze. They actually turned it into an opportunity on the Internet. And it's that ability to capture these signals, understand them and act on them quickly. But we've got lots of examples of blog messages that have been ignored for way too long and just go viral. It doesn't take very long.

Reibstein: Which takes me back to your question. I want to build on what George said related to your question. You said, “How do you determine which ones to respond to?” I think part of the message ends up becoming, “Every customer becomes important,” in part because, today, every customer has a microphone, or a megaphone, I guess I should say, because it is easier to broadcast your message. You could have said, “There's not a massive number of people claiming their canaries are dying from Febreze. Let's ignore it.” But, as George points out, it goes viral and suddenly it starts becoming this big

publicity.... If we ignore it, then it could be very, very dangerous. So every customer starts becoming important, and you need to be addressing all of them. That requires a whole different skill set.

Day: So this gets back to the issue, "How do you build the skill set, the technologies?" Most companies would be ill-advised to try to do it themselves. It's an extremely sophisticated kind of analysis. That's where partners come in. Finding the right partners, building a relationship with them -- those are difficult management challenges. The good companies will do it.

Broadly, this leads us into the question of how do you then think about this marketing capabilities gap? The answer is, most companies are not going to be able to close it. All their aspiration should be is to close it faster than their competitors. Get ahead. Line up the right partners. Build a capability to do these kinds of test-and-learn experiments. Stay ahead of the competition. By the way, just a side-bar to this: One of the things that I'm fascinated by is that there are only so many good partners out there. I think what we're going to see in this open marketing arena is that the smart companies are going to get there first. They're going to lock up the good partners, and the later entrants who say, "Oh, this is a good idea," won't have the pick of the partners.

Knowledge@Wharton: Should we worry about consumers' short attention spans? I mean, they're trying to absorb these thousands of messages thrown at them. At some point, consumers just tune you out. How do companies avoid that? How do they avoid being ignored by potential customers?

Reibstein: That is always a threat. It's been a threat for a long time. But because we have so many different channels to try and reach customers, it's become more of a threat. The responsiveness to banner ads is down, just because the number of them has gone up. I think part of the answer goes back to really customizing the message in your communications to the individual customer so that what you're saying resonates with them. Historically, we're going to post it out there for a large number of people. Our message comes from the history again of mass media. We're going to put out a mass message versus talking specifically to Robbie, or talking specifically to individuals about what it is they might need.

Day: But at the extreme, not only is the message tailored, but the whole product offering.

Reibstein: Absolutely.

Day: So you get exactly what you want. Now customers will pay attention because they understand that you're solving precisely their problem. Why does Zappos do so well in an otherwise crowded category? Because they are very good at customer service, and they give the customers exactly what they want. Customers can solve their problems very easily on Zappos.

Knowledge@Wharton: Right. Weren't they one of the first to offer free shipping back and forth?

Day: Yes. So you can order three pairs of shoes to get the one that you really want to keep.

Knowledge@Wharton: Exactly. And not pay any penalty. George, you sent me a study from IBM called "From Stretched to Strengthened," in which IBM talked to more than 1700 chief marketing officers worldwide. At one point, the study advises CMOs to understand individuals as well as markets, to establish customer intimacy, to focus on relationships and not just transactions. How do you do that in such a huge global online marketplace?

Day: That's where technology becomes our friend. We can build deep insights into customers, if they choose to let us. They may not. They may want a transactional relationship. But by and large -- let's just take Zappos because it's a very familiar example -- Zappos knows a lot about its customers and it reaches out to them. Let's take another company which I think has done a masterful job of addressing that, and that's Tesco, with their Club Card in the U.K. They have 14 million customers who have given Tesco permission to capture all the data about every transaction, all their demographics, background information. So Tesco knows an enormous amount about these people. It can then tailor messages precisely to their geographic area and to them individually. So a newly wed couple gets a certain set of offerings. A family with a new baby gets offers.

Knowledge@Wharton: But at some point, don't you think customers are going to stop giving that permission?

Reibstein: There's a concern about too much intrusion. "I want to guard my privacy." I think we're going to go through some waves of people saying, "No, I want to be private" and other people saying, "Wait a minute. I'm being better served by companies knowing some information about me." My belief is that the only people who should receive coupons for baby diapers are people with babies. Right? You could go through the whole list of the only people who are going to get specific offers are ones who are in need of it. We see the phenomenon of Groupon going on right now. The number of promotions that I get for Brazilian blow-outs is just amazing. And for tooth-whitening and for things that I'm not particularly interested in right now. That's just wasted messaging going on. I wish they knew more about me so that I wouldn't get all the noise.

Knowledge@Wharton: So would you give them that information so they could, in fact, learn more about you?

Reibstein: As I said, we're going to see these waves of people discovering, "I want to be private, but on the other hand I am much better served, I get much less of this noise if people know more about me." I think there's going to be a bifurcation of those who say, "Bring it on." And others who say, "I want to protect." Those who are asking for protection of their information are going to be observing the others. I think we will see an evolution towards more disclosure, not less disclosure.

Day: Just to put a wrapper around this, what's a relationship? It's a perception of mutual understanding and mutual benefits. So customers will only give the company permission if they think it's in their best interests.

Knowledge@Wharton: So they have control over this?

Day: They have control. Why does Tesco get permission to collect all this information and to use it to target, as Dave was suggesting, very specific messages? The answer is a rebate. What's neat about Tesco is that every quarter, [customers] get a rebate based upon a percentage of the value of the purchases they have made in that quarter. That's a reminder that this is a very good two-way relationship.

Knowledge@Wharton: I have two more questions. Dave, the IBM study also quotes CMOs saying that return on marketing investment is the primary measure of effectiveness. This is nothing new. It's something you've talked about a lot. But how do you prove that value? How do you come up with some numbers? Or are numbers not the answer?

Reibstein: People are stuck on this return on marketing investment. They do that, in part, because it integrates with the rest of the financial communications of the company because you've got an ROI that is measured in all sorts of investments. So it's a basis for a comparison across. But I think what we need to do -- and what our current accounting systems are not very good at doing right now -- is capture the long-term contributions of marketing. So we have things like a brand, which only shows up on our books if we acquire a brand. If we build it, it doesn't show up officially on our books. But that doesn't mean that we can't measure it and can't measure what the value of that particular brand is. Again, there are partners. There are various companies that assist in helping with that particular measurement.

But maybe even better than brand is looking at the long-term value of a customer. That's not saying, "Just what is it that they bought right now and how much should I make in that transaction?" But [rather], "I want to think about that relationship -- that relationship I have with that customer that is today and hopefully out into the future." So when someone buys a BMW, the value of the customer who bought the BMW is not what I just sell him right now and the service that he is going to have, but it's also what is the probability that he is going to buy a BMW out into the future? What companies are going to move more towards looking at that longer term? I raise this in the context -- I haven't forgotten your question, the return on marketing investment which is sort of looking backwards. "How much did I make from that?" It's not looking enough forward towards that future revenue stream that's going to come by having gotten this customer, solidified my relationship, increased the probability that [he or she] is going to be buying out into the future.

Knowledge@Wharton: George, I'll throw this out at you. The IBM report at one point uses a very strong image. It says, "Just as X-rays transformed medicine by letting doctors see through human tissue, so the new information and communication technologies are revolutionizing business by letting customers and

citizens peer through corporate walls.” What is the one single best thing a company can do to turn consumers’ ability to see through corporate walls into a competitive advantage?

Day: To essentially create transparency, to focus largely on the building of relationships based upon mutual benefits, mutual understanding. The company has to really invest to understand those customers and then create offers that are exactly tailored to their requirements, so that they feel they are being listened to and that their [needs] are being met. This is this notion of mutual commitment based upon mutual rewards. I don’t mind you getting a benefit from this, but it’s got to be worth my while.

Knowledge@Wharton: Thank you both for coming.

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