ISSUE NUMBER 41 SUMMER 2008

Market Leader

NEW THINKING, DIFFERENT PERSPECTIVES

ASIA RISING

The new geography of innovation

CHARLES LEADBEATER & JAMES WILSDON

Chinese consumers, brands and the MNC learning curve Tom Doctoroff

Why the consumer should not be the king in India Jitender Dabas

Comparing the Indian and Chinese middle class Saurabh Sharma and Kunal Sinha

Innovation: brand it or lose it

DAVID AAKER

The art and science of marketing

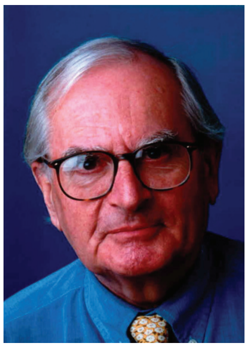
INTERVIEW WITH PHILIP ALMOND, MARKETING DIRECTOR, DIAGEO

Why is marketing missing from the sustainability agenda?

DAVID WHITING

MARKETING SOCIETY

If we choose to believe what Emerson didn't say, then we're all doomed



This article is reprinted from the latest WPP Annual Report and Accounts, with kind permission. It expands on a theme first explored in *Market Leader*, Autumn 2007.

THERE'S AN INTERESTING work of fiction to be written quite soon. Indeed, it's probably in draft already. It will chronicle, with all the imagination and persuasiveness of a George Orwell, the birth and turbulent development of The New Age of Abstinence.

Chapter I introduces us to a world crudely comprised of two blocs: economies that have long enjoyed the benefits of cheap energy and become addicted to them; and economies that are poised to enjoy those benefits for the first time and are damned if they're going to be denied them now. Neither bloc is in the mood for self-restraint.

For at least 200 years, economic growth has been universally worshipped; in either practice or prospect. In their election manifestos, governments have boasted of their national growth rates as evidence of their competence to govern. A million private-sector companies have set annual growth targets and celebrated their attainment. The only way to achieve such targets is through the encouragement of heedless consumer consumption: more people to consume and more consumption per person. Marketing has become an honoured discipline. Growth is good.

Such growth has suited the fortunate citizens well enough. Rising incomes have meant more independence, more choice, more comfort, less toil. There is universal expectation that such growth will continue indefinitely. Ever improving standards of living have become not just an aspiration but a right.

It's against this background, slowly and reluctantly, that world governments finally acknowledge the inevitability of fossil fuel exhaustion and the cataclysmic effects of climate change.

They also wake up to their responsibility to govern. Vast changes in human behaviour are urgently required. Governments everywhere on the bridge of state ring their alarms and call down to their engine rooms: 'Hard Astern!' Consumption must be thrown into reverse gear.

A massive propaganda campaign is clearly called for. Encouragingly, in poll after poll, respondents declare themselves eager to live greener, leaner lives. Yet few actually do. When individual effect is puny and immeasurable, why, people ask themselves, should they voluntarily deprive themselves of all that they hold most precious: travel, choice, comfort and independence? So they don't. And the needle on the world's fuel tank jerks another notch downwards.

The entire world is playing musical chairs. Soon there will just be the one chair left – and then the music will stop for good

With persuasion having failed, coercion becomes inevitable: 'It's for their own good, you know.' A New Age of Abstinence is declared – to be enforced by a great raft of new legislation.

Predictably enough, the new laws are greeted by a new lawlessness. Selfishness becomes pandemic. The rich, as ever, find ways to live as they have always lived. Armed guards protect them from the frantic poor. As world populations multiply and water levels mount, the landmass shrinks: now bitterly competed for by food and agrofuels, each claiming more of the dwindling whole. Civil wars spread like bush fires. Day by day, as temperatures and sea levels rise, supplies of food and fuel continue to contract. The entire world is playing musical chairs. Soon there will just be the one chair left – and then the music will stop for good.

The End

The scary thing about this melodramatic scenario is that, although we remain comfortably confident it won't turn out like that, it doesn't unduly strain credulity. Given the facts that are now almost universally accepted, it could indeed turn out a bit like that. If demand continues to increase for the supply of rapidly dwindling and irreplaceable commodities, some parts of this fictional story seem bound to become reality. We may choose to disagree about when – but whether seems less and less a debatable issue.

Somehow, perpetual growth and heedless personal consumption will have to be re-examined and repositioned. And so will the function and practice of marketing.

Marketing, understandably, is seen as being indissolubly linked to the encouragement of consumption: after all, that's what almost all marketing effort has been directed towards. Virtually every marketing plan the world has ever approved contains growth targets: more volume, more share, more profit, more consumers, more consumption.

And it's because marketing is seen as synonymous with the encouragement of consumption, much of it increasingly thought to be improvident, that marketing could well be destined to become the villain of this story. Take the parallel case of juvenile obesity: a serious problem in many of the more developed nations. Though the causes are known to be multiple and complex, the obvious and immediate culprit to identify is marketing. So the banning of advertising of high-fat foods is the obvious and immediate step to take.

Faced with the need to curb consumption, it would be politically very tempting for governments to demonstrate their decisiveness by first demonising and then emasculating marketing. There aren't a lot of votes in marketing and if you don't think about it too deeply, it seems to make sense.

In fact, of course, to penalise marketing through taxation or legislation would be not only wrong-headed; it would also compound our problems. It may seem perverse; but despite the fact that the great gods of growth and consumption are about to be challenged as never before, we're also going to need marketing as never before. It will just demand a greatly improved understanding of what marketing is and what marketing can do.

There can surely be no doubt of the need for wholesale changes in people's attitudes and behaviour. In our fictional fantasy, persuasion failed; in real life, it can't be allowed to. People's behaviour will change not because we're instructed to change but because we choose to change. And we'll choose to change only when we're encouraged to see, not just the penalties of failing to change but an alternative way of doing things that offers more than mere survival.

Marketing's proven value in stimulating invention has been allowed to fade from general consciousness. It urgently needs to be revived. That torrent of invention that first created the Industrial Revolution and then sprang from it now needs to be matched and then surpassed. With any luck, it's begun already. The human ingenuity that inadvertently created the mess we're in will have to get us out of it. And proper marketing will be essential both in creating the demand and spreading the word.

Ralph Waldo Emerson is widely believed to have said, 'If a man write a better book, preach a better sermon, or make a better mousetrap, tho' he build his house in the woods, the world will make a beaten path to his door.' As it happens, there's absolutely no direct evidence that

Emerson ever said such a thing – which is just as well since it's self-evident rubbish.

For the inventor of the better mousetrap, if both he and the world are to benefit from that invention, it needs to become known; its existence and its advantages need to be brought, quickly and persuasively, to the world's attention.

When inventive people know that there's a vast latent demand for new things; and when they know that, once having been invented the world can be told about those things, they'll be inspired to invent. And, just as importantly, companies and investors will be encouraged to invest. Who's going to invest in a new mousetrap (or a revolutionary new storage system for electricity) that's destined to remain forever undiscovered in the depths of a wood?

Most of the things that need to be invented probably haven't even been identified yet. The only certainty is that there will be thousands of them – and they'll range from the apparently trivial to the unimaginably immense. More attractive low-energy light bulbs will have their place; and so, with luck, will an affordable, functioning hydrogen fuel cell.

Meanwhile, a combination of fiscal incentives and disincentives, responsible reporting and the occasional, inevitable man-induced human disaster will gradually nudge that mysterious consensus called public opinion into thinking quite differently about growth and consumption. As always, attitude change and behavioural change will occur not sequentially but in parallel. So those new inventions, and those new developments of existing technologies, as one by one they're revealed and promoted, should find an increasingly receptive public.

Nobody knows how much time we still have but few seem to think it's anything but urgent. And one thing we know about good marketing and communications is that they can greatly accelerate the pace of change.

If the pessimists are right, at least that's something to be grateful for.

Innovation: brand it or lose it

By DAVID AAKER

Branding can help an organisation own an innovation, create and dominate a new subcategory and enhance the perceived effectiveness of the organisation. US branding expert David Aaker argues that these benefits are often overlooked and that branding decisions should be part of the innovation strategy.

INNOVATION is increasingly at the centre of the strategy and the DNA of most firms, from HP's 'Invent' to Toshiba's 'Leading Innovation' to Toyota's 'Moving Forward' to Cargill's 'Nourishing Ideas'. The logic is that innovation will lead to growth and profitability. Growth will come from innovation-driven new products and businesses, and profit will follow from innovation-inspired margin increases and cost decreases. Further, as most markets drift towards commodity status, with offerings becoming similar, innovation is seen as the way to create differentiation, thereby shielding firms from price erosion.

Indicators of the interest in innovation abound. Each year some of the most influential books are focused on innovation.[1]

Further, business publications such as *Business Week* and *Fortune* regularly have cover stories on or related to innovation. Yet with all this interest in innovation there is little discussion of how innovation should be branded. Firms emphasising innovation often regard branding as a tactical detail. And the subject of branding is virtually never raised in the books and articles on innovation. The focus is on the benefits and even necessity of innovation, how to make it happen, how to overcome organisational barriers, and how to overcome implementation problems. Nothing on branding.

I would assert that branding and innovation should always be considered. A brand strategy can enable, sometimes crucially, the potential of an innovation to be realised. There are times when you literally need to brand it or lose it.

Branding, it should be emphasised, does *not* mean putting a name and

David Aaker is Vice-Chairman of Prophet Brand Strategy

logo on an innovation. Rather, it means that a brand is developed guided by a coherent brand strategy and supported over time by actively managed, adequately funded brand-building programmes. An ill-conceived, poorly executed brand strategy will not be helpful. Further, not all innovations will merit a resourced, actively managed brand-building programme. Far from it. There is a real risk of overbranding with its resulting confusion and under-resourced brands. To merit a brand, the innovation needs to represent a significant advance, be valued by customers and merit investment over time.

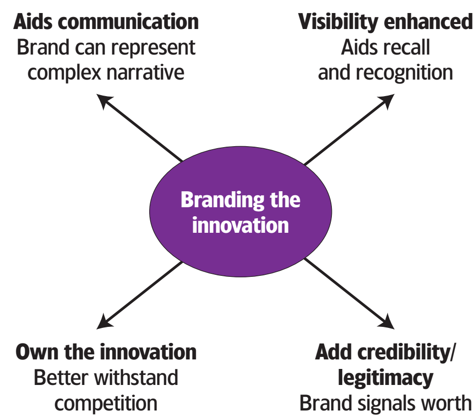
With that caveat, this article will discuss the upside of branding an innovation in the context of three distinct innovation roles: creating or improving an offering, creating a new subcategory, or influencing the perceived innovativeness of a corporate brand.

Creating or improving an offering

Innovations directed at creating or enhancing the value proposition of a business to the customer can combat the slide into a commodity status with the associated margin erosion. However, when the innovation is not branded the impact is usually short-lived, if it occurs at all.

Amazon developed a powerful feature – the ability to recommend books or whatever based on a customer's interests as reflected by their purchase history and the purchase history of those that bought similar offerings. But, tragically it never branded it. As a result, the feature became a commodity that is an expected feature of many e-commerce sites. If Amazon had branded it and then actively managed that brand, improving the feature over time, it would have become a lasting point of differentiation that today would be invaluable. It did not make that same mistake with One-Click, a branded

Figure 1 WHY BRAND INNOVATION?



service that plays a key role in defining Amazon in what has become a messy marketplace.

The problem with sliding innovations into the existing offering is twofold. First, the market is made up of those who are not motivated or perhaps not able to sort out claims and the rationale behind those claims. A coping strategy is to ignore what are seen to be confused and contradictory competitive claims. As a result, an innovation not anchored by a brand simply fades in the muddled environment. Second, any dramatic visible improvement is likely to be quickly copied or appear to be copied by competitors so that any belief that a unique point of differentiation has been achieved will recede as the perception that competitors have matched the advance carry the day.

Branding changes all that. A new offering can have its own brand (NetFlix), endorsed brand (Apple's iPod), or subbrand (Glad Press'n Seal). Further, an innovation that represents a feature (Cadillac's OnStar), ingredient (Dove's Weightless Moisturiser), or service (Best Buy's Geek Squad) could also be branded directly. A brand provides several powerful functions most of which go back to branding basics (see Figure 1).[2] First, a brand makes communication more efficient and feasible. A new product or product feature, for example, may lack interest among the target audience. Even when the communication registers, it can be perceived as too complex to warrant processing and linking to an offering. The act of giving the product or feature a name can provide a vehicle to summarise a lot of detailed information. A name such as Oral B's Action Cup provides a way to crystallise detailed characteristics, making it easier to both understand and remember.

Second, a brand name can help make the innovation visible because it provides a label for the 'news'. As a result, it is likely that it will be easier to achieve higher recall and recognition scores around the innovation. It is easier to remember a brand name than

Innovations directed at enhancing the value proposition of a business can combat the slide into a commodity status with the associated margin erosion. However, when the innovation is not branded the impact is usually short-lived, if it occurs at all

The iPod created a subcategory that involved more than playing music.

the details of a new offering or a branded feature or service. In fact, one of the characteristics of a good brand name is that it is easy to recall.

Third, a brand can add credibility and legitimacy to a claim. An unbranded claim, a better fabric or a more reliable engine is likely to be interpreted as another example of puffery. The brand specifically says that the benefit was worth branding, which is not only meaningful but impactful.

One study showed that the inclusion of a branded attribute (such as 'Alpine Class' fill for a down jacket, 'Authentic Milanese' for pasta and 'Studio Designed' for compact disc players) dramatically affected customer preference towards premium-priced brands.[3] Respondents were able to justify the higher price because of the branded attributes.

Fourth, and perhaps most important, a brand provides the potential to own an innovation because a brand is a unique indicator of the source of the offering. With the proper investment and active management of both the innovation and its brand, this ownership potential can be extended into the future indefinitely. A competitor may be able to replicate the offering or its new feature, ingredient or service, but if it is branded, it will need to overcome the power of the brand. Another firm can copy the objective features of Apple's iPod or Westin's Heavenly Bed but there will be only one authentic product and that is the one carrying the brand name.

Managing the perceptions of a new subcategory

There is a spectrum of innovation, from incremental to substantial to transformational. Especially when a transformational innovation occurs, an opportunity often presents itself to create a new subcategory or category, to change what people are buying. The challenge is first to make sure that the subcategory is selected by customers and second to make the brand the dominant choice. Winning occurs not because a competitor's brand is rejected but, rather, because the competitor's brand is not seriously considered as relevant to the new subcategory. When an innovation has the potential to create a new subcategory, branding that innovation can help make sure that the opportunity is realised. A branded innovation can provide a vehicle to define, position and dominate the new subcategory.

The opportunity is to equate the branded innovation with the new subcategory and use the brand to define, position and dominate the new subcategory.

Under subcategory competition (as opposed to brand competition), a key step is to make sure that the subcategory is selected. A brand can play a key role by helping to define and position the subcategory. So the Westin Heavenly Bed, for example, introduced in 1999, defined for some a subcategory within the hospitality industry: hotels with premium beds. As the innovator, Westin managed the subcategory by defining premium beds around the Heavenly Bed. By extending the subcategory scope with the Heavenly Bath brand, it made it harder to copy the concept.

The early market leader brand has the potential to position or reposition the whole subcategory, making it more appealing. Winning the subcategory battle for relevance can be more important and impactful than winning a brand share fight. Asahi, as the dry beer subcategory innovator and early subcategory leader in 1986, positioned the subcategory with respect to taste (sharp, clean, less aftertaste) and personality (young, energetic, aggressive, innovative). A few years later when it became the clear category leader, it repositioned dry beer as being global, a market leader, and delivering the freshest beer, and, as a result, created a market share surge. Asahi leveraged the resulting subcategory success and its subcategory dominance to go from a 10% also-ran in 1985 in the highly competitive Japanese beer category to a marketing share leader less than 15 years later.

When the brand defines the subcategory it will take on the characteristics of the brand. Further, the brand will become the most visible option for the subcategory. The inevitable result will be that the brand is also considered the most relevant brand, perhaps the only relevant brand, for the subcategory.

One goal of subcategory management is to define the subcategory to include features that influence which brands are relevant. Consider the iPod. When it arrived there was a category, MP3 players. The iPod created a subcategory that involved more than playing music. With a design that was cool, elegant and compact, with easy-to-use features, it was visually and experientially appealing – characteristics difficult to deliver credibly in that general space. Additionally, the companion brand, iTunes, provided easy access to music and other entertainment vehicles plus computer-based management of the iPod content inventory. Thus the category was defined in such a way that Apple's iPod was the only game in town. The iPod subcategory earned credibility and clarity by linking with the Apple and Steve Jobs brands. Competitors emerged, such as Microsoft's Zune, but struggled because they were perceived to be deficient with respect to some of the attributes even though that perception was not always accurate. Attribute perceptions attached to the brand iPod became difficult to overcome.

Research has shown that the development of new subcategories or categories, on average, creates above-average profits because when competitors become less relevant, then the marketplace will become more attractive. Chrysler pioneered the minivan subcategory in 1983, sold over 200,000 cars in its first year and maintained leadership in the subcategory for at least a decade, which created a profit stream that helped it survive. In one study of 108 business launches, those 14% that were categorised as creating new sub-categories had 38% of the revenues and 61% of the profits of the group.[4]

'Perceived innovativeness' of an organisation

Branding an innovation will also provide another benefit. It can affect the 'innovativeness' image of the organisation brand, which is often the corporate brand, resulting in two benefits. First, an innovative image provides credibility to new products. Research has shown that an image of being innovative will enhance the prospects for new products – particularly, products that are different from their predecessors. Second, an innovative reputation will enhance the attraction of the firm to customers. It will provide energy to a firm. In fact, the best energiser is an innovative product, especially one that has a buzz around it. Further, innovation can contribute to a firm's stature because of its association with success and leadership.

It is not easy to achieve an innovative reputation. In fact, most firms aspire to be perceived as innovative, but few break out of the clutter. Branding the innovation can potentially help make the innovation visible, communicate its features, and provide credibility and substance to the effort

Toyota, one of the top three firms in the *Business Week* – Boston Consulting Group list of the World's Most Innovative Companies in 2007, was helped by the success of the Prius.

to affect the perceived innovativeness of the organisational brand.

Consider the top three firms in the *Business Week* – Boston Consulting Group's list of the World's Most Innovative companies in 2007, based on a survey of top executives.[5] Each of these positions was undoubtedly influenced by branded innovation. Apple, the top firm, rode the success of the iPod, iTunes and iPhone. Toyota, the number three firm was helped by the success of the Prius. Even Google, the number two firm, which does not espouse any brand strategy, benefited from branded innovation that helped create its leadership position in internet advertising, namely Adwords and Adsense.

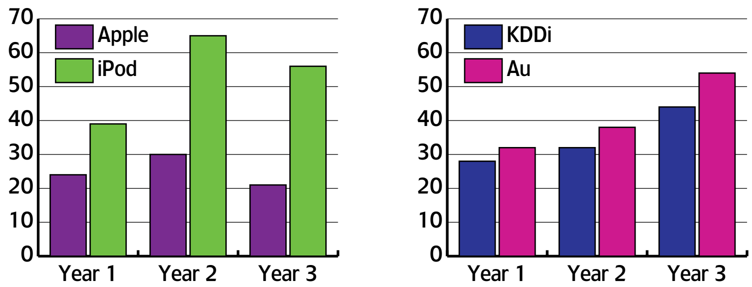
Sony, the number 13 firm in the survey and, until recently, the number one firm in Japan on the innovativeness scale, is given credit for being innovative despite a dismal record in the last two decades in terms of actually delivering innovation. This reputation is largely based on its branded innovations of the 1970s and 1980s, starting with the Trinitron TV technology introduced in 1968, which enabled Sony to take a lead in the TV market over two decades. Then came brands such as PlayStation, Handycam, Vaio, and AIBO that, even today, influence perceptions of Sony.

The fact that branding an innovation can help affect the perceptions of a brand with which it is associated has theoretical and empirical support. There is a large body of evidence in psychology that the perceptions of an object will be affected by what is associated with it. A person's personality is affected by their clothes, friends, activities and living space among other things. They all send signals as to what type of person they are. A brand's image is associated, for example, with the colour of the product or package, the price, the music in an ad and the store in which it appears. The organisational brand that can be linked to a

There is a large body of evidence in psychology that the perceptions of an object will be affected by what is associated with it. A person's personality is affected by their clothes, friends, activities, and living space, among other things. They all send signals as to what type of person they are

Figure 2

BRANDED INNOVATION
iPod and Au impact on Apple and KDDI



branded innovation will benefit from that association. The brand can help make the innovation and its link to the organisational brand more salient.

There is also empirical evidence that one brand can drive perceptions of another linked to it. One study of a quarterly database of high-tech firms found that brand equity as measured by attitude towards the brand seldom varied from quarter to quarter.[6] However, one exception was the observation that the brand IBM significantly improved at the time that the ThinkPad brand got traction in the marketplace. Even though the brand ThinkPad was a tiny part of IBM's sales, it moved the IBM brand.

More evidence comes from an annual survey by Nikkei BP Consulting that rates over a thousand brands in Japan along some 15 dimensions including innovativeness.[7] Analysis of the survey data over eight years shows that correlation between changes in the innovativeness scores of innovation subbrands and changes in their parent brand score over 72 data points is 0.44. Also, if the six subbrands that were in the top ten sometime during the last five years are examined, the relationship is strong. For example, Nintendo's perceived innovation score went from 70 in 2006 to 114 in 2007 and to 127 in 2008 (when it was far and away the most innovative Japanese brand), while the subbrand Nintendo DS in the same time frame went from 73 to 114 to 118 (where it was the number 2 most innovative brand in Japan). During another three-year period, the Apple image went from 74 to 80 to 71 while its subbrand iPod went from 89 to 115 to 106 and the subbrand au (a mobile phone service) went from 82 to 88 to 104 while its parent brand, KDDI, went from 78 to 82 to 94.

A final word

The forgotten dimension of innovation is branding – not *just* applying a name and logo but creating a brand supported by a strategy and an actively managed brand-building programme. Unless an innovation is branded, there is the risk that the innovation could fade into the crowded marketplace and see its life shortened. The return on investment could then be reduced by orders of magnitude.

Branding has the potential to own an innovation over time, to add credibility and legitimacy to the innovation, to enhance its visibility, and to make communication more feasible and effective. When a transformational innovation that creates a new subcategory is involved, a brand can help to define, position and dominate that new subcategory.

Finally, a branded innovation can add new product credibility and energy to a corporate brand. Not all innovations should be supported by a strong, actively managed brand, but the brand decision should be part of the innovation strategy.❦

daaker@prophet.com

References

1. Books like Christensen, C. M., Anthony, S. D. & Roth, E. A. (2004) *Seeing What's Next*. Boston: Harvard Business School Press.
Foster, R. & Kaplan, S (2001) *Creative Destruction*. (2001) New York: Currency.
Hamel, G. (2000) *Leading the Revolution*. Boston: Harvard Business School Press.
Kelley, T. (2001) *The Art of Innovation*. New York: Currency.
Kim W. C. & Mauborgne, R. (2005) *Blue Ocean Strategy*. Boston: Harvard Business School Press,
Moore, G. A. (2005) *Dealing With Darwin*. London: Portfolio.
Tushman, M. L. & O'Reilly, C. A. (2002) *Winning through Innovation*. Boston: Harvard Business School Press.
Zook, C. (2004) *Beyond the Core*. Boston: Harvard Business School Press.
2. For a more extensive discussion of the value of a brand to customers and firms see Aaker, D. A (1999). *Managing Brand Equity*. New York: The Free Press, Chapter 11.
3. Carpenter, G. S., Glazer, R. & Nakamoto, K (1994) 'Meaningful brands from meaningless differentiation: the dependence on irrelevant Attributes.' *Journal of Marketing Research*, August, pp. 339–350.
4. Chan Kim, W. & Mauborgne, R. (2005) *Blue Ocean Strategy*. Boston: Harvard Business School Press, p.7.
5. The World's 50 Most Innovative Companies, *Business Week*, 8 April, 2008.
6. Aaker, D. A. & Jacobson, R. (2001) 'The value relevance of brand attitude in high technology markets' *Journal of Marketing Research*, November, pp. 485–493.
7. Brand Japan 2007, conducted by Nikkei BP Consulting, is the seventh annual survey-based evaluation of some 1,000 brands in the Japanese market.

Adapted from the article by the same title published in California Management Review, *Fall, 2007*

China, India and Korea: the new ge

By CHARLES LEADBEATER AND JAMES WILSDON

In this article – based on the Demos Atlas of Ideas project – Leadbeater and Wilsdon argue that the West is no longer the dominant source of innovation, given the speed and scale of activity in China, India and Korea. Britain now needs to develop a distinctive national innovation strategy for an economy based on services, culture, media and software.

ON THE OUTSKIRTS of Shanghai, 1,000 researchers are working in a state-of-the-art Intel research facility that was built from scratch in just five months. By 2012 there will be 10,000 spread over two sites. In Beijing, engineers at Ericsson's research centre are developing routers for mobile phone systems at a third of the cost of those in Europe. On the edge of Delhi, among the call centres and new shopping malls, Ranbaxy, the Indian drug company, has opened an R&D centre with 2,000 scientists, modelled on a Bristol Myers Squibb facility in the US. In Daejon in South Korea, geneticists equipped with the latest gene sequencing machines are generating world-class stomach cancer research after just three years. The knowledge parks and high-tech zones springing up across Asia are demolishing the barriers to entry into scientific innovation.

Flowing through the airports that serve Asia's innovation hotspots are the people who make this shiny hardware work: research scientists, corporate innovation managers and serial entrepreneurs, flooding back mainly from the US and carrying with them western management methods, money, contacts and ambition. They are attracted by a potent cocktail: fast-growing markets; plentiful state funding for research; and middle-class lifestyles in the increasingly cosmopolitan cities that they can call home.

The reverse migration of these nomad innovators heralds a new phase of globalisation, one in which ideas and innovation will flow from many more sources. In the last 30 years, global supply chains have transformed how we make products. Our pensions, savings and bank accounts now depend upon seamlessly connected global markets. Something similar is about to happen to the way we develop and apply ideas. Innovation will emerge from global networks that link research, testing, development and application.

We used to expect new ideas to come from the universities and research laboratories of major companies in the US and Europe. Technology flowed from this innovative core to the technologically dependent periphery. No more. The core and periphery are being scrambled up. Places that were on the margins of innovation ten years ago – Bangalore and Pune in India, Daejon in Korea, Shanghai and Shenzen in China – are now essential stopping-off points in the continuous flow of people, ideas and technologies around the world.

The rise of China, India and South Korea will remake the innovation landscape. US and European pre-eminence in science-based innovation cannot be taken for granted. The centre of gravity for innovation is starting to shift from west to east.

What is at stake?

Yet the rise of innovation from China, India and Korea is also feeding a climate of anxiety in Europe.

Britain must avoid making two big mistakes. First it must wake up to what is unfolding in China and India, and not respond with too little too late.

Second, it must work to prevent a global retreat into techno-nationalism, and instead evangelise for a cosmopolitan approach to innovation.

The rise of Asia will inevitably challenge our position in knowledge-based industries. More knowledge jobs will go offshore. Research and development will become

Charles Leadbeater is a leading authority on innovation and creativity. James Wilsdon leads the science and innovation programme at Demos.

eography of innovation

more international. In the long run, China, India and Korea will start to earn more from exploiting their own intellectual property, and our share of income from intellectual property may decline.

However, it would be extremely short-sighted to view these developments purely as a competitive threat. Britain can prosper from global innovation networks, as it has from the internationalisation of financial services, but only if we choose not to isolate ourselves from global flows of knowledge. We need to act decisively to make ourselves central to global innovation networks, based on a longer-term view of what is at stake both for Britain and the rest of the world.

Innovation in Asia may accelerate development and raise incomes, creating a larger market for British services. The resources India and China are devoting to innovation are large, but still feeble when set against the challenges of poverty they face. In India, 390 million people live on less than $1 a day, often without clean water and electricity. Some of China's poorest regions have a standard of living on a par with that of the poorer parts of Africa. These countries need innovation to deliver tangible social improvements. The more successful they are, the more opportunities there will be for Britain to trade with them.

Innovators in Britain may also be more productive if they can collaborate with Asian partners with complementary skills, for example in the application and development of technology. Our hubs of scientific

Korea plans to be a world leader in biotechnology and nanotechnology through doubling investment in R&D.

innovation, in London, Cambridge, Oxford and Manchester, should attract inflows of talent from around the world, just as the City of London has.

If more researchers are doing more science, with ever more powerful computers, this increases the likelihood of meeting the global scientific challenges we face: from low-carbon innovation to vaccines against pandemics. More brains, working on more ideas, in more places around the world, are good news for innovation. Out of that may come new fields of science, such as synthetic biology, and new methods that transform how science is done.

There is no single Asian innovation model

China, a country whose leaders mostly trained as engineers, is now engaged in the biggest mobilisation of scientific resources since John F Kennedy launched the race to put a man on the moon. Massive increases in government R&D spending, rising multinational investment in innovation, and flows of researchers, entrepreneurs and managers returning from Europe and the US are fuelling China's ambitions to become a science superpower, less reliant upon foreign technology thanks to a new generation of home-grown high-tech companies. China hopes that its most innovative regions will soon be where South Korea is now.

South Korea emerged in 1960 from a ruinous civil war, its economy on its knees, with virtually no natural resources, low levels of literacy, just 800 graduates and GDP per capita on a par with that of some African states. With US support, the state orchestrated rapid industrial development, working hand in glove with a group of large family-owned companies. That provided the base for Korea's ambitions to become a knowledge driven economy, with R&D set to reach 3% of GDP by 2010. Korea plans to be a world leader in biotechnology and nanotechnology, through doubling investment in R&D to expand the scientific research workforce from 180,000 to 250,000. Korea's well-educated population, connected by pervasive broadband and mobile phone penetration, could unleash a wave of mass innovation in media and services.

India is a different story altogether. China is a one-party state, India an imperfect but vibrant democracy. In Korea the state orchestrated development; in India the state is chaotic at best, and at worst a drag on innovation. In Korea, work is defined by the phrase 'hurry, hurry'; India is more languid. China is seeking to become a source of 'independent innovation'; India has already turned away from that goal.

Political independence from Britain in 1947 ushered in a concerted attempt to build a self-reliant Indian science and innovation system. But since India opened its economy to international investment and trade in 1991, it has positioned itself as an interdependent innovator, serving multinational companies and creating technologies for global markets.

India's innovative energy comes from its people: 2.5 million graduates a year, 350,000 of them engineers. By 2015 India could be producing 1.4 million graduate engineers a year. At the heart of this is a group of global Indians, who many hope will lead the country's transformation. India does not have an innovation system but an innovation class: the global, non-resident Indians who are embedded in social and business networks that connect India to Silicon Valley and beyond.

In the hall of mirrors

Judging what kind of innovations these three different countries could produce is complicated. It is easy to both underestimate and overestimate what they are capable of. It is like being in a fairground hall of mirrors: the same statistics can simultaneously look very large or very small depending on your vantage point. In India these problems are further compounded because reliable information is sometimes not available.

Four problems bedevil attempts to make reliable judgements about the strength of these innovation systems.

1. Quantity does not mean quality

India has a huge pool of young graduates but perhaps only 10% of them have an education of international quality. Korea produces scientific papers in prodigious quantity but most tend not to be heavily cited by other scientists, which suggests that their quality and originality is not high.

2. Choose the right yardstick

China and India's aggregate output of science and scientists is growing fast. Yet, set against the size of their population science is under-developed: India produces large numbers of engineers in global terms, but still only 5% of its population go to university.

3. Inputs do not equate to outputs

Innovation measures focus on the resources being pumped into science and research. How productively these resources are used also matters. Here the picture is more mixed. In China, for example, it is common for policy makers to point out that world class hardware and infrastructure for innovation does not equate to world-class culture and software for innovation.

It is still early days. Korea seemed to be leading the world in stem cell research until the results of now disgraced researcher Dr Hwang, then Korea's supreme scientist, were exposed as fraudulent. Similar 'science bubbles' may inflate in China where resources are pouring into a research system that insiders say is rife with plagiarism. China faces larger uncertainties over whether economic growth can be maintained, the prospects for political reform, and whether top-down planning will stifle innovation even as it funds it. In India the inequalities associated with globalisation have provoked a cultural and political backlash that has forced politicians to refocus on the needs of the rural poor. Only ten years ago, India was still seen by many as case for aid; now equally erroneously it is sometimes assumed that India is becoming a vast software park.

4. Innovation is not linear

It does not roll off a production line, with researchers, equipment and resources going in at one end, and papers, patents and applications flowing out at the other. China, India and South Korea will be more significant sources of innovation in future.

Yet predicting where things are headed next is tricky. The already significant differences between these countries' approaches to innovation may grow rather than diminish.

Each country and the regions within it will produce innovations that reflect their particular strengths and weaknesses. China's and Korea's development is based on products; India's growth relies on services. In China the state is at the centre of innovation efforts, in India the impetus comes from social networks and the private sector, and in Korea, the chaebol have surpassed the state as the largest funders of R&D. China's innovation system is directed towards long-term goals; India's is diffuse and chaotic. China is not a democracy; India is. China wants independent innovation to lessen its

Innovation is not linear. It does not roll off a production line, with researchers, equipment and resources going in at one end, and papers, patents and applications flowing out at the other. China, India and South Korea will be more significant sources of innovation in future

Steering British science and innovation will mean facing some tough strategic choices that go beyond simply levels of funding for R&D. Britain will not be able to compete with the scale and low cost of innovation resources in Asia. It will have to compete by using its resources more productively and creatively

reliance on the west. India is positioning itself as an interdependent innovator to connect with the west; China's innovation ideology is laced with techno-nationalism, India's with the cosmopolitan confidence of the global Indian elite. Compared to China, democracy may be India's strongest card: ensuring the freedom to think and debate that may prove critical to long term innovation.

Where Britain stands

Britain needs to learn lessons from those industries. The innovative part of the British car industry is now confined to a global niche making Formula One and Indy Cars, after long-drawn-out efforts to rationalise the British mass production car industry ran into the ground. Britain's science and innovation system might end up in just such a niche unless it embraces reform, raises its productivity and makes international collaboration central to its way of working.

The City of London could also have ended up as a cottage industry in world terms. But in the 1980s, its arcane practices were swept away and now the City is firmly established as one of the world's leading finance hubs. Britain's goal should be to develop the same 'City of London' model for science: cosmopolitan, skilled and efficient; open to new entrants and technologies; supported by trusted but business-friendly regulators.

Steering British science and innovation will mean facing some tough strategic choices that go beyond simply levels of funding for R&D. Britain will not be able to compete with the scale and low cost of innovation resources in Asia. It will have to compete by using its resources more productively and creatively. That will require reforms to how science is funded, to promote innovation and research across disciplines; strengthening links across the innovation ecosystem between universities, business and finance; and ensuring that a culture of creativity and exploration thrives in universities.

Britain will need to make choices about which areas of science it wants to specialise in as other places build up their capabilities. It will need to rethink how it collaborates internationally and with whom: for example, by merging more British science programmes with partners in Europe or the US to gain economies of scale.

How Britain governs and regulates science will be critical to this, securing public trust through greater and earlier openness to debate, while simultaneously supporting innovation in leading-edge fields such as stem cell research. Britain should lead the world in the good governance of innovation.

All this needs to be wrapped up in a distinctive, national story of innovation, in an economy that is largely based on services, culture, media and software. Too often, innovation policy has been designed to fight the last war, to revive Britain's vanishing manufacturing base, rather than to prepare for the next.

Britain needs an approach to innovation that is not just about the scientific elite, the trendy creative class or entrepreneurial heroes, but that recognises the contribution that everyone can make as consumers, citizens and creators. And this message must be cast in terms of cosmopolitan innovation: Britain as a place that is open to the world's best ideas, and that will support anyone from anywhere to put those ideas into practice. ❦

charlie@charlesleadbeater.net
james.wilsdon@demos.co.uk

The dilemma for service providers in countries with defined hierarchical norms is fascinating. Jitender Dabas argues that the increasingly rude behaviour of Indian consumers towards service providers comes from following the Western 'customer is king' model. Companies need to be more commanding and less sichophantic.

Why the consumer should *not* be the king in India

By JITENDER DABAS

THE CHANCES ARE that if you are in India you would be likely to reach the conclusion that the rudeness you observe towards service providers – mobile phones, banks, credit card providers etc – comes from consumers experiencing poor standards of service and/or that the quality of service is fast deteriorating. In fact, the reality is quite the opposite.

About ten years ago it used to took 15 days to three months to get a telephone installed. Today it takes less than 24 hours for an active landline connection and you can have an active mobile phone connection almost instantly. The approval time for a home loan has come down from months and weeks to five to seven days. You can apply and get a credit card almost instantly. The time required to get cash from a bank has almost come to nil thanks to technologies like ATMs, compared to the half day that it took a while back.

Now, consider the brand choice equation. As recently as ten years ago, there was one telecom service provider, one life insurance company and not more than four or five big banks to choose from.

Today there are more than five telecom service brands, more than 10–12 insurance brands, almost all of them partnered by the world leaders.

There are more than 20 banks to choose from – all of them armed with the latest technologies. More than half a dozen airlines are ready to fly you through the day between different cities.

In light of this, the often highly aggressive behaviour by consumers clearly defies logic. Even more intriguing, is the typical consumer behaviour before all this. Ten years ago, the line man from the state-owned BSNL would come and install the telephone after a month and a half of applying for it, and most consumers felt very obliged and happy to offer him sweets and warm hospitality. Now the same time has been cut down to 12–24 hours, but agitated consumers are chiding the hapless new service providers for taking so long. In short consumers are having the best time of their lives as service brands are treating them as kings.

So while brands in all service sectors are stretching themselves to 'delight' middle-class consumers, an almost inverse relation is developing between the efforts that service brands are putting in to pleasing the consumer and the respect that the consumer shows towards them. The harder companies try, the worse they are treated.

Today, even some of the international brands in areas like financial services have started to lose the global 'halo' that used to fetch them a premium. Therefore the brands need to worry. Not just because the consumer is getting irritated or behaving badly, but because their brand premium has begun to erode.

Why the sudden rudeness towards service brands?

Is this the revenge of the consumer? One theory says that after years of being treated shabbily consumers finally have choice and are venting built-up frustrations. But logic says why should they be unhappy about getting what they wanted and more?

The second hypothesis is about the intensity of competition in the market raising consumer expectations to a level where they become insatiable and unhappy. Some also suggest that the increased brand choice across all categories has turned consumers into spoiled children, hence the bully behaviour. But, strangely, even in low-choice categories the rude behaviour is already prevalent.

But none of this explains the increasingly rude and intolerant behaviour from the culture of middle-class Indians which is essentially tolerant and polite.

The new power equation

What has changed in the last few years is that consumers have become more powerful because of the choices resulting from the opening up of service sectors to private players. But why would this necessarily lead to a change in people's value systems?

The answer lies in an understanding of Indian social structure and the abilities of its sub-parts to handle power.

A look at the social structure in Indian society would reveal a pyramidal construction with the power gradient being steep between levels and classes – a structure, it should be emphasised, in which Indians are very comfortable. And the truth about such a structure is that you either look up or down at other people; there cannot be a third way. A relationship of equality cannot exist in such a structure. Therefore the only relationships which Indians have experienced comfortably are of either superior or subordinate.

Added to it is the historical inexperience of the mainstream of society in handling power. Whenever a section of the middle class has acquired power, its behaviour suddenly becomes rude and arrogant. (The neo-rich class has at times tried to assert its dominance in a particularly aggressive and ugly way).

Mainstream Indians (the middle class) are bad masters in that they don't know how to handle authority. The 'caste' nature of Indian society reveals this fact. Compared to

What has changed in the last few years is that consumers have become more powerful because of the choices resulting from the opening up of service sectors to private players. But why would this necessarily lead to a change in people's value systems?

middle-class people in many Western societies, who are polite and friendly to bar tenders or waiters or car valets, Indians have never been particularly courteous to people who perform menial tasks.

Power distance theory

A more scientific understanding of this behaviour comes from the study of different cultures by the anthropologist, Geert Hofstede (2006). The Hofstede model of five dimensions of national cultures analyses and differentiates societies from 50 countries on the basis of five dimensions – power distance, uncertainty avoidance, individualism, masculinity and long-term orientation.

Of relevance here is the power distance dimension, defined as the extent to which the less powerful members of organisations and institutions (like the family) accept and expect that power is distributed unequally. The most important aspect of the theory is that, in many societies, the level of inequality is endorsed by the followers as much as by the leaders. All societies are unequal, but some are more unequal than others. How people willingly accept or reject these inequalities is the basis for Hofstede's distinction between small and large power distance societies.

The key characteristic of a large power distance society, is that power is a basic fact of society antedating good or evil: its legitimacy is irrelevant. This is supported by parental emphasis on obedience, the dominance of teacher-centred education, unquestioned acceptance of hierarchy and a highly uneven income distribution.

India has a power distance index (PDI) of 77 as compared to the world average of 56.5. (Other countries with similar scores are Russia, Mexico, Rumania and some of the Arab countries). This power distance score for India indicates a high level of inequality of power and wealth within the society.

But what it is important to understand is that this condition is not tolerated resentfully, but rather accepted by the population as a cultural norm. To some extent this explains the legitimised and comfortable existence of the caste system and other hierarchical behaviours that would be unacceptable in Western societies. The fact that this inequality is endorsed as much by the followers as by the rulers explains why, in spite of being a democracy, Indians are still obsessed with one family rule, they revere our cricketers and worship their movie stars as gods.

In low power distance societies it is possible for brands to have a relationship of equality with the consumer. The brands can ascribe the status of 'king' to the consumer and yet retain the status of equal in the hierarchy

This is where India differs from many Western cultures like Sweden, the UK, the US and Australia which have very low PDI scores (less than 40) and where relationships between classes are more equal and less hierarchical.

How is this relevant to brands?

What this means is that in low power distance societies it is possible for brands to have a relationship of equality with the consumer. The brands can ascribe the status of 'king' to the consumer and yet retain the status of equal in the hierarchy. This is difficult in high power distance societies like India and others. And herein lies the reason for the problems service brands are facing in controlling their relationship with consumers.

The development of service sectors in the economy happened first in the industrialised West. So the theories of service marketing and models of service brands have taken shape in societies with lower power distance. Putting the consumer at the centre of everything and treating them as 'king' came naturally since the inequality between different social levels was never too high and egalitarianism is a recognised social value.

But in cultures that support strict hierarchical relationships, the servile nature of the service brand is a major handicap if they follow the 'consumer is king' model. It means they become subservient to the consumer in the equation and hence consumers begin to

treat them with the same disdain with which they treat anyone in a subservient position in their culture.

This explains why as service brands are falling over each other to please the consumer, he is treating them with more and more contempt. Not that consumers like being given importance. It's simply that rudeness is the only behaviour they know. This also explains why consumers were more respectful ten years ago when they weren't treated particularly well by the state-owned brands. In those times, intentionally or otherwise, service providers kept power to themselves and the consumer who was comfortable with being on the lower rung of the power equation gave the brands the status of ruler and was happy to be ruled.

But as service brands are giving all power to consumers, it is perhaps not surprising that consumers have started to behave like tyrants.

A challenge to premium service brands

To be respected in such a culture, brands will need to increase their distance in order to assume power. If brands try to play a 'subservient' role in such cultures they will be treated badly.

What this translates to is that premium brands always need to be at a higher level of the hierarchy than consumers if they want to protect their premium-ness. The brand should be the king.

In a competitive market the brands that display a servile demeanour in order to win consumer preference will eventually end up being exploited and bullied.

So are there examples of brands that seem to be doing it right? The most interesting case in point is Kingfisher Airlines, which seems to be climbing fast in terms of brand preference among fliers in India.

The whole experience is intended to feel like an invitation from the king to his private kingdom to enjoy the luxury. It offers great service but keeps itself on a higher pedestal and doesn't compromise its position in the whole equation. Therefore it is possible to keep the consumer at the centre but still remain in control.

Some principles for service branding in India

This is not about treating the consumer disdainfully. It is about the power equation between the brand and its consumers. It is about the demeanour the brand exhibits when it deals with consumers.

The brand needs to provide good service, but what it needs to avoid is becoming too eager to please. For example, the more servile and submissive telephone calls I receive from customer service representatives, asking if I'm happy, the more I will start asserting my ruler status over the brand and the more likely I am to become rude and insulting.

Service brands needs to be careful when they're training their staffs in the softer skills. They need to understand the difference between being polite and being servile.

The CEOs of the companies should be careful not to appear too servile even if they're handling a delicate PR issue. The way Vijay Malaya (CEO of Kingfisher) invites you aboard his flight looks like a king issuing invitations to his kingdom. The relationship with the consumer is therefore stated clearly from the very beginning.

The argument that by increasing the power distance from your consumers you will become niche is also not correct. In fact, the brands with high power distance from their consumers will always be the bigger and more desired brands than others.

After the telecoms and financial services, the next wave of service brands to hit Indian consumers is going to be in the area of retail, entertainment and food services.

As global brands like Wal-Mart, Carrefour Tesco and Indian giants like Reliance enter the retail sector and go about creating the next set of service brands, they will need to decide the nature of their relationship with the Indian consumer. Essential to their positioning in the marketplace is a clear view of who will rule the relationship.❦

References

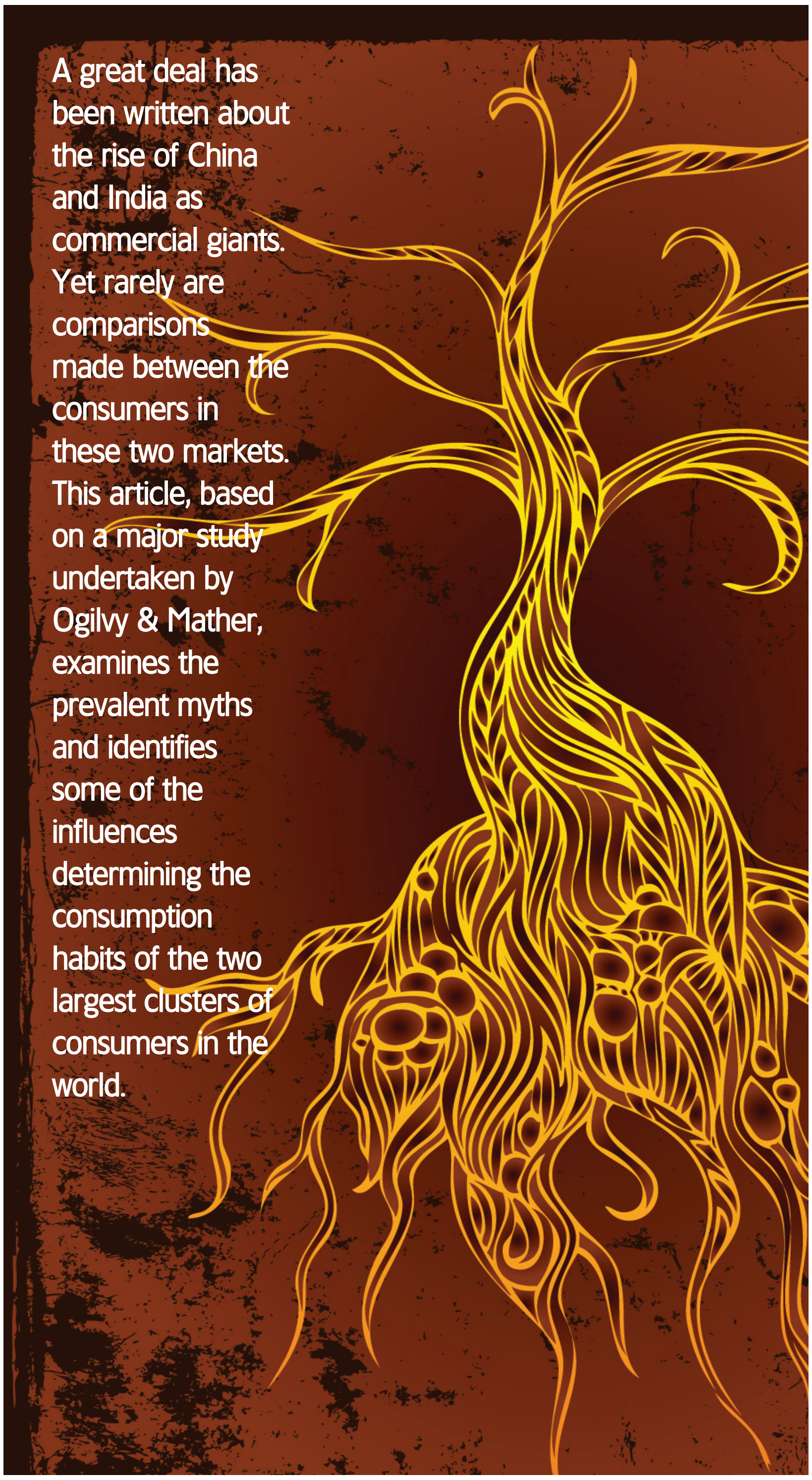
Hofstede, G., (2006) *Dimensionalizing Cul tures: The Hofstede Model in Context* (2006) Universities of Maastricht and Tilburg, the Netherlands, www.ac.wwu.edu/~culture/hofstede.htm

jitender.dabas@jwt.com

New routes from old roots

Comparing the Indian and Chinese middle class

By Saurabh Sharma & Kunal Sinha with Jane Ling



A great deal has been written about the rise of China and India as commercial giants. Yet rarely are comparisons made between the consumers in these two markets. This article, based on a major study undertaken by Ogilvy & Mather, examines the prevalent myths and identifies some of the influences determining the consumption habits of the two largest clusters of consumers in the world.

WHEN WE THINK of India and China, a huge variety of popular perceptions and images come to mind, captured in these real chapter titles from some recent, more popular books:

India:
Global and Medieval – India's schizophrenic economy;
Battles of the righteous – the rise of India's lower castes
New India, old India – the many layered character of Indian modernity

China:
The China price
The pirate nation
The revolution against communist revolution
A startup and a turnaround

While both media and business have focused their attention on the way these two economies have grown, and will continue to grow, there is limited information about the social impact of these economic developments.

Collectivism vs individualism

As a part of this initiative we have focused on the household as a unit and looked at household influences in these two societies. We chose the household unit as a lens, rather than the individual, because of the collective nature of the two societies.

Globalisation and other foreign influences notwithstanding, both societies have traditionally demonstrated a more collectivist social structure with household and family more important than the individual, society or even the country. This difference is important because it contrasts these two societies with the majority of western soci-

eties where values and decision making arise from a more individualistic orientation (see methodology at the end of the article).

Differences in experience and pace of change

A direct comparison between the sets of families in China and India would be unfair because each is at a different life-cycle stage. Also, social change in China has been more dramatic and liberating in contrast to the previous period of repression in thinking and exposure. Thus, their need to try to explore is much more pronounced than for Indians, who have witnessed steadier change.

Barring the emergency and accompanied political uncertainty of the 1970s, Indian society has not witnessed social or political turmoil – very unlike China's tumultuous past.

For example, Indians have used multinational brands for decades – some of them such as Cadbury, Lux, Surf, Horlicks – have almost lost their 'foreign' identities and are seen more like 'Indian' brands, whereas in China, when people drink Coke or use Olay, they are acutely aware they are consuming a foreign brand: it is typically the primary reason for its consumption.

Despite the difference in the pace of change and the different stages in a household's evolution, there are still some key comparisons that can be drawn about the way middle-class households lead their lives in these two societies.

> **Live-in relationships between young men and women are quite prevalent and socially acceptable in China. This is in sharp contrast to how the Indian middle class looks at pre-marital intimacy. Much of the romantic and sexual behaviour of the young in China is simply a matter of copying certain aspects of a Western lifestyle**

We will look first at some of the social contrasts.

- **Relationships, freedom, romance, sexuality.** Live-in relationships between young men and women are quite prevalent and socially acceptable in China. This is in sharp contrast to how the Indian middle class looks at premarital intimacy. Much of the romantic and sexual behaviour of the young in China is simply a matter of copying certain aspects of a Western lifestyle. Consequently, public displays of affection are much more prevalent in China than India. Young boys and girls are much more expressive as they walk down the streets. This is in sharp contrast to the more conservative view of sexuality prevalent among the Indian middle class. This also shows a greater concern for 'what will people think' among the Indian middle class.

- **Religion and caste-based social segmentation.** Most Chinese families are not religious at all. The practice of religion is a recent phenomenon, and its role is a social one. This is in sharp contrast to their Indian counterparts. Indians find relevance for religion and spiritualism in almost everything – politics, commerce and even family and relationships. The majority of weddings do not happen without a matching horoscope. The first choice of a parent from among the Indian middle class is to get his son or daughter married to someone from the same caste or community. This is an antithesis to the more caste-neutral Chinese middle class.

- **Self-expression.** While karaoke nights are niche in India, they are a mainstream rage in China. This could once again be seen as 'expression with a vengeance' among the 'recently liberated' Chinese middle class compared to the traditionally more communicative and democratic India.

There are many areas where behaviours are quite different. We'll look at a few next.

Doers vs talkers and destiny over deeds

Chinese middle class boys and girls are active and outdoorsy 'doers', be it work or play – fishing, barbeque, rollerblading or karaoke. In contrast Indian boys are less active and Indian girls leaving school do not engage in any kind of physical or indoor sport at all. At a cultural level this divergent behaviour is rooted in two distinct philosophies. While the Chinese philosophy is Confucian, wherein the man is the doer and in charge of his destiny, the Hindu philosophy is driven by destiny more than deeds. An old and familiar adage in India, 'One cannot ever get more than what is written in one's destiny or get it before the time for it has come.'

Eating out

The Chinese are very comfortable in eating out and do so regularly in groups. This is in sharp contrast to Indian families, for whom a meal out of home is infrequent, although snacking on foreign food is becoming popular with the young.

Multiple jobs

Many young middle-class Chinese men and women take up more than one job at a time – attempting to improve their living standards through the extra income.

In India, on the other hand, moonlighting is an exception. The approach of the Indian middle class towards jobs and employment is much more linear and one-dimensional. Indians aspire to the best of education for themselves because it is a ticket to a better life. Among the Indian middle class, dabbling in many things at the same time is viewed as a symbol of lack of focus or a family's poor financial standing and inability to support their child's education. The Chinese are more instrumental: more jobs equal more money.

Media exposure – an acknowledgement of media influence

Younger urban households in both cultures are typified by greater internet penetration. However, the Chinese middle class is much more comfortable with new media than their Indian counterparts.

Furthermore, the Chinese don't feel embarrassed about acknowledging the role of advertising and media in their purchase decisions. But rarely would an Indian say he bought something because he liked the advertisement. Indians always prefer to point out the logical reasons for the purchase decision (even if emotional reasons are the drivers for purchase), typically citing quality or price as the reason. Indians are inveterate rationalisers in this regard.

Brand preferences and the generational divide

The older generation in China prefers classic symbols of luxury. Young Chinese, on the other hand, prefer brands that are differentiated in design and form. This is especially true for fashion accessories and automobile brands. In other words, Chinese youth are more individualistic in their choice of brands in many categories.

Young Indian middle-class consumers, in contrast, are more comfortable with mainstream brands and prefer to acquire well-known symbols of luxury/exclusivity – suggesting they are less individualistic, less experimental and more image conscious than their Chinese counterparts.

This examination has enriched our understanding of the subtleties and nuances of these two societies and refutes – or at least, clarifies – some of the more prevalent myths or stereotypes. Here are some of the more interesting conclusions:

1. India and China are collective societies but in contrasting ways.

While the meaning of collectivism in the Chinese middle class is more about the household or parents, collectivism in the Indian middle class is more about the family or extended network of relationships, viz. parents, uncles, aunts etc. In some ways, affection and responsibility in China are focused, while they are distributed in India.

2. Although India has been a democracy for decades, the Indian middle class is far from egalitarian.

Even after over 60 years of freedom and independence, the Indian middle class still

exhibits caste behaviour in multiple ways. This ranges from marriage preferences to 'reverse caste-ism' in the form of reservation of government jobs for people of backward communities.

3. A prominent stereotype is that China is not an expressive or experimental society. We concluded that China is an even more expressive society than India.
Years of controlled life in China have led to a whole universe of bottled-up feelings, emotions and thoughts. The new era of economic boom has led to a new wave of Chinese 'expression with a vengeance'. The society is altogether more experimental and outgoing than India.

4. Food experimentation is nothing like as widespread as it is in Western (especially Anglo-Saxon) societies.
Both the Indian and Chinese middle class are exploring newer cuisines but this is still simply for a change and not a transition to a new taste. In fact, both societies still look at Western or other international cuisines as snacks and not proper meals.

5. A widespread belief is that the Chinese are rational consumers while Indians are emotional in their purchase behaviour.
Both societies are exploring newer products, services and brands – all with a range of emotional components. The only difference is that the Chinese consumers acknowledge the role of media and marketing in their purchase decisions, while Indians shy away from admitting it.

6. It is an overstatement to say that both middle classes are upgrading and adopting luxury.
The reality is that they are experimenting with 'miniature luxury' (personal premium products for special use or occasions), viz. Chivas Regal, Olay, Davidoff etc. and services viz. premium and super premium restaurants, salons etc., while cutting back expenses on staple food, everyday groceries and toiletries. This amounts to a realignment of expenses and not an across-the-board upgradation to premium brands.

7. The young Chinese are seemingly more individualistic in their brand choices, a herd mentality persists in both the societies.
In both societies brand choice is a function of the immediate friend circle. Many brands get chosen simply because everyone in a group is buying them. The difference is restricted to the designs and colour and even these are more similar than divergent.

8. The Western idea that individual effort is what leads to success is not held by either society. Individual efforts are important, but social contacts make all the difference.
Whether it is *guanxi* in China or *bhai bhatee-javaad* ('favouring brothers/nephews') in India, a lot is accomplished by milking family and social relationships.

9. The notion that women are earning, independent and outgoing is unsupported. Men work for money, women work for 'pocket money'.
Despite better education and equal opportunity, middle-class women in both societies play a supporting role. While men are the chief wage earners, women either take care of the household and remain housewives (in India) or supplement family income with a low-pressure job, simply because their main responsibility is still childcare.

The older generation in China prefers classic symbols of luxury. Young Chinese, on the other hand, prefer brands that are differentiated in design and form. This is especially true for fashion accessories and automobile brands. In other words, Chinese youth is more individualistic in their choice of brands in many categories

Sample, location and methodology

Household and family influences are a function of their composition (networks within a household unit) and location (networks with the immediate environment). In order to arrive at a balanced portrayal of household influences, we decided to segment the households on the basis of their size and location.

For both the countries, we cherry-picked the household life-cycle segments that are witnessing maximum change. These household/family groups, we believe, represent change in the two civilisations at this point in history. Thus, while the Chinese respondent households are yet to be nests, Indian households are full nests. For China we picked up households units that are demonstrating a revolutionary spending pattern and hitherto unconventional social habits like live-in relationships etc. These are households that comprise young men and women who are entering their first jobs. Research locations had to be chosen, while being conscious of stereotypes, viz. 'Shanghai is China' and 'Bangalore is India'. In order to strike a balance between tradition and modernity we looked at cities that were very old and yet were embracing the new wave of economic and social activity – the real India and the real China, so to speak.

The study used a video-ethnography approach. Families were familiarised with the camera and then videotaped from Saturday to Monday to capture both weekend and weekday routines.

For more detail contact the authors (email adresses below).

Some broad implications

Foreign vs local

One of the key implications is that, in China, Multinational Corporation(MNC) brands (with the major exception of food brands that need to be localised everywhere in the world) need not localise their appeal as much as in India. Chinese consumers are looking westwards, and the appeal of those brands lies in just that. In India, localisation must be taken much more seriously and communication often needs to be rooted in local idiom.

The meaning of family

While there are many commonalities there does exist a fundamental differences in the way family influences operate in these two societies. The meaning of family in China is limited to immediate household or parents, whereas in India family stands for a larger network of influences beyond the extended family. Thus the perennial concern in middle-class India is 'What will people say!'

This differential meaning of family or household manifests itself in the meaning of society and social obligation. While decisions such as education and occupation have equal parental involvement in both societies, in China marriage is more of a personal decision; families dominate in India.

Important role of social bonds

Approval and recognition from the social influencers is key to building brands in both nations; also many items (not just gifts) are bought for others – girlfriends buy cosmetics for each other, food for boyfriends, wives buy for husbands etc.

Family and friend relationships can be so close that one happily passes on the responsibility of choice to another. This is something that would rarely be seen in western societies, which exhibit a more individualistic consumer mindset. Markets such as India and China thus offer an opportunity and pose an imperative to build brand and marketing propositions that are more rooted in relationships and rituals than individual identities.❦

Saurabh.Sharma@Ogilvy.com
Kunal.Sinha@Ogilvy.com

Chinese consumers, brands and the MNC learning curve

By TOM DOCTOROFF

A seasoned China watcher takes a look at China's progress in terms of the brand issues marketing people need to understand. Tom Doctoroff examines the changing role of multinational companies and contrasts their approach to branding with the local Chinese approach.

PRIOR TO THE late 1990s, local brands – three-dimensional entities carrying intangible equity – did not exist. Of course, local trademarks littered (state-owned) supermarkets and corner stalls. But today, they are an increasingly high-powered threat, one that multinational competitors ignore at their peril. They now control more than 50% of the shampoo market, 30% of mobile phones (albeit mostly in secondary and tertiary cities) and are even making inroads in mid-tier automobiles (Cherry, for example). Tactically ruthless, they are a school of piranhas smelling blood in the water and instinctively detecting weakness in the primordial soup that is China's brand universe. They will chew the flesh off multinational corporation (MNC) players trying to survive off quick, shallow liaisons with (increasingly savvy) consumers.

Less than a decade ago, local 'trademarks' were laughably inferior, fodder for self-denigrating (yet nationalistic) Chinese patriots. Yet, as we near the end of the 21st century's first decade, Shenzhen-based TCL is digesting its recent Thompson television acquisition and Lenovo has – in one breathless, bold stroke – purchased IBM's PC division. No one is snickering now.

MNCs target the top, leaving the base exposed

Local names such as Lenovo (computers), Haier (appliances), Wahaha (beverages), Tsing Dao (beer) and Bird (mobile phones) have exploited the blind spot of even the most eagle-eyed multinationals. The cool brands – foreign brands are still hip – are too expensive. Understandably, CEOs from San Francisco to Tokyo are intoxicated by the emergence of a mainland middle class, one fuelled by exponentially rising disposable income. But even a cursory look at the China Statistical Bureau's crudely manipulated data reveals an unassailable truth: the living standards of the rich, the top 10–15%, the urban elite, call them what you will, have improved at a healthier clip than the circumstances of the bottom 85%.

Today, MNCs boast high prices relative to competition. In fast moving consumer goods, categories where achieving scale is a critical precursor to healthy profits, foreign/JV goods are much pricier than local counterparts. Shampoo is 50% more expensive (and this is after both P&G and Unilever slashed prices to compete against down-and-dirty Slek *et al.*). In skin care, a category dominated by local brands, foreign ones (even 'upper mass' Olay) have a 250% premium. International feminine hygiene brands such as P&G's Whisper or Unicharm's Sofy are 71% more expensive than the average Chinese SKU. So they have often been relegated to a rarefied, 'nichified', aspirational yet unaffordable plane.

MNCs, fixated on the pyramid's tip, have left the 'base of the temple' uncovered. (It is here, by the way, that clout with distribution networks and retailers is forged.) Local brands have taken advantage of Westerners' narrow world-view to target our blind spot. MNCs have across-the-board momentum in some categories (for example, mobile phones and some personal care products). Meanwhile, local players totally dominate the appliance, furniture and apparel industries. (It is significant that the latter group consists of goods consumed out of public view).

In China, figures can lie. Reported rises in market share are often flights of fancy. However, distortions are not gross enough to

mask an uncomfortable truth: Chinese brands are not strong yet but are getting stronger and are here to stay. If you are lucky, they will disintegrate into irritating background buzz, targeting the fringes of the consumer universe. If you are not, they will coalesce into juggernauts to smash Western companies to smithereens.

Cheap prices

Fortunately, the death knell has not yet rung; there is not a single local brand that consumers actively prefer. We must never confuse equity – perceptions of functional superiority or relevant 'value benefits' that translate into long-term loyalty at a higher price – with awareness. The vast majority of Chinese – at all income levels – still favour Western brands. True, local brands are ubiquitous and have achieved universal awareness largely by leveraging two hugely important competitive advantages: control of, insight into, or ability to manipulate prehistoric distribution channels; and massive media investments, which are often state-funded and usually irrationally allocated. Despite this, few hearts are touched.

According to BrandZ, Chinese companies have failed miserably at converting 'presence' into 'bonding'. For example, in white goods, both Little Swan dishwashers and Chang Hong televisions boast universal recognition, even in tertiary cities. However, relative to competitors, they are saddled with negative affinity – buyers actually resist purchasing them. Even opaquely European Electrolux, a second-tier international player handicapped by both modest television spending and a cratered retail landscape, is more aspirational than any indigenous brand. The story is similar within the health care category. Despite China's rapid emergence as a beer-swilling nation (not to mention the widespread availability of local brands such as Tsing Dao and Reeb), American king Budweiser boasts a much richer relationship with consumers.

Local brands have succeeded in achieving on-the-ground scale. While this coup is impressive, for the most part, they are mere clones of their international counterparts. In many cases, there is functional parity but, like the Tin Man, no heart. They offer nothing more than basic reliability and low, low prices.

Few local enterprises keep one set of reliable books; in fact, most keep two or three sets, depending on the audience. Accountants are exotic. However, it is safe to assume, given the mainland's obsession with fixed capital investment, that profit margins are frighteningly unsustainable. Smart organisations know they must restructure, refocus and reposition or die. As we discuss later, a few are doing just that, and successfully. However, even at this late hour, with China's financial infrastructure finally embracing real market reform by loosening interest and exchange rates, most marketing managers put up a good front but are feeble equity builders.

Change the channel, now!

Local brands, as a whole, are burdened by three communications barriers. Unless they are removed, meaningful affinity will be impossible to achieve. First, local marketers confuse brand awareness with three-dimen-

sional equity. Second, advertising is usually only one step above an annual report, more rooted in corporate credentials than a relevant, single-minded proposition. Finally, most brands' messages are alarmingly inconsistent and incoherent.

Except for P&G, local companies far outspend MNCs in television, print and newspaper advertising. Even after adjusting for the 60%–70% discounts offered by fly-by-night local brokers, it is not unusual for a large local brand to spend $75–$100 million. Chinese marketers, always reassured by gargantuan projections of status, are hooked on screaming their brand name, loudly and frequently, across the airwaves. Commercial breaks are interminable affairs, rendered even more painful by looped TVCs, the same ones playing seven times in one 8–10- minute 'pod'. To boot, these 'bulk buys' usually support creative material of the most dubious persuasive quality.

Such media wastage is colossal if one has the temerity to assume advertising should, directly or indirectly, persuade people to buy a product. Awareness is a prerequisite to purchase; however, it is a necessary, but not sufficient, prerequisite. On the contrary, 'unconverted awareness' can be, and often is, detrimental to equity.

Frequency fixation often leads to a reverse dysfunction – ie chronic media avoidance and a parallel obsession with below-the-line tactical binges. Slek shampoo, for example, struck fear in the hearts of MNC manufacturers after its 1999 launch. The brand utilised extremely aggressive in-store sampling and oceans of point-of-sale material. Although it invested practically nothing in television or print, it quickly achieved a near-miraculous 8% share. Unilever and P&G both feared that a terrifying new 'model' had been unleashed, one mysteriously tailored to the 'uniqueness of the China market'.

Chinese marketers, always reassured by gargantuan projections of status, are hooked on screaming their brand name, loudly and frequently, across the airwaves

They were half correct. Indeed, local brands are an increasing menace and, as a cluster, now control over 50% of shampoo market volume. But, due to their failure to forge coherent equity, none has any real staying power. Slek quickly peaked and faded into the background. Its story is not atypical. There are well over 200 shampoo brands sold in the PRC. New ones are born every month. But they soon die, undernourished and unappreciated.

Celebrity usage is another common way of quickly establishing awareness (and often nothing else). Endorsements by the rich and famous can be powerful. Over the millennia, Chinese have been conditioned to respect status; they assume that people at the top are there by dint of individual destiny or heavenly mandate. Furthermore, celebrities signal perceptions of reliability, a valuable commodity. However, celebrities should mean something. Usage should be optimised by linking a star's personality with that of the brand, lest viewers focus on what the star is wearing, not on what they are saying.

Unfortunately, celebrity usage is rarely optimised. For example China Unicom, a new and scrappy competitor on the front line is battling China Telecom, the telecommunication industry's 800-pound gorilla. China Unicom invested $5 million in snaring Yao Ming, the most revered local sportsman of all time, as a spokesperson and then wasted it on pointless and visually egregious advertising. The television commercials, amateurishly shot, depict a child handing a basketball to Yao, who dunks it and grunts, 'I love basketball. I love China Unicom.' The print and outdoor material is even worse.

Propaganda vs relevance

Since the 1949 revolution, freedom of expression has never existed in the mass media. The authorities meticulously delineate the contours of public discourse. Every sentence, quotation and comma is laid down by edict.

The regime – with impressive intellectual agility – mandates what the people hear and what they should think.

The masses, adept at reading between the lines to uncover shards of insight, are in on the game. They know every news item and cartoon has been edited to put the CCP in the most 'productive' light. The propaganda is immediately discounted.

The largest Chinese enterprises are and will remain state-owned, arms of one government ministry or another. Their leaders have been schooled to treat 'customers' as controllable subjects, not persuadable targets. They continue to believe that the buying public gets its kicks by listening to corporate credentials. They remain deaf to messages crafted to meet consumers' needs. Their advertising, laden with statistics, bar-charted demo sequences and hi-tech mumbo jumbo, emerges from the same department that dreams up the company's annual report.

Change in the wind?

Rome was not built in a day. Or, as the Chinese say, a journey of 10,000 li begins with a single step (for those wondering, a li is about a third of a mile). China's liberation from the shackles of communistic dogma is, by any historical standard, progressing at breakneck speed.

Several industrial sectors – textiles, biotech, information technology, auto components – are clawing their way up the value chain. Even *The Economist*, a mainstream publication cynical about the China 'miracle', grants that the country has 'progressed from the world's sweatshop to the world's tailor'.

Despite the fact that few companies have fully implemented the structural reforms required to ensure continued momentum, some local brands have been making good progress. But gains are tentative and scattered, a grudging response to profit squeeze rather than some spiritual conversion to the glory of brands.

However, nowadays, many firms are producing better ads. Specifically, they are: using relevant brand logos and taglines, incorporating insights into the core proposition and creating increasingly frequent product innovation.

Starbucks modified its strategy for the Chinese market and is now on every street corner or Beijing and Shanghai.

MNC counterattack

Leading foreign companies are not sitting still. They are fighting back, and often winning. Specifically, they have belatedly begun to adopt the following strategies:

- localising product appeal
- grabbing the perceptual high ground while broadening the consumer franchise
- arbitraging on structural shifts taking place within the economy, particularly rising incomes
- leveraging deep pockets and a research and development advantage.

The reliability of international brands is, indeed, a selling point but not enough to seal the deal. Localising is essential.

Starbucks knows this. From day one, it successfully established itself as a public place in which professional adults go to snack, linger and, most importantly, proclaim their affiliation with the new generation elite. It also knows that Chinese people don't like to drink coffee (too 'heaty') so it introduced tea, broadened the sandwich menu, identified prime site-to-be-seen real estate and expanded average store size. The brand, now on every Beijing and Shanghai corner, has been integrated into the fabric of their daily lives.

Most auto companies manufacture no two-door models, offering a wide range of choices between large and extra-large sizes. Image-driven Chinese men must project status with every step – hence Ford's decision to christen its Lincoln Navigator as 'The President', targeted to those who aspire to

Image-driven Chinese men must project status with every step – hence Ford's decision to christen its Lincoln Navigator as 'The President'.

stride down the corridors of power with confidence and grace. (SUVs will be huge here, both in size and popularity.)

Unilever's Hazeline shampoo (Sunsilk in other markets) localised its range with a black sesame variant, a food believed to make hair blacker and shinier. Other locally relevant ingredients (eg ginseng for weak hair, green tea for oily hair) have also been well received.

However, localising ingredients isn't enough. Since its 1998 launch, Hazeline has shifted positions fast and furiously. It has gone from 'naturally safe' to 'confidence' to 'cements boy–girl relationships', 'rescues you from social disaster' and now back to 'naturally safe'. In addition, media spending has been anaemic, particularly when compared to the P&G Rejoice juggernaut.

Leveraging the lab

Global companies are, by and large, bigger investors in research and development than local enterprises. This competitive strength springs from three key factors, only one of which will remain in place as China becomes a more mature economy.

First, state-owned enterprises and other Chinese entities have relatively short histories and, therefore, have not aggressively reinvested capital. Second, the growth of per capita income has largely been driven by productivity gains that occur as underemployed 'rural fringe' workers are integrated into China's thriving urban economy. (China's urbanisation rate has no historical parallel. During and after the American industrial revolution, it took 50 years for the percentage of the people living in cities to double from 20% to 40%. China accomplished the same increase during the past 20 years). Gains do not spring from the technological innovation that occurs in developed economies. Third, China is a Confucian culture. Supremely practical, virtually all knowledge, from scientific to observational, is 'applied' to practical (immediate) problems. In such a hard-driving utilitarian environment, the long-term payoffs of primary research will rarely be fully embraced. Japan, a land of nuanced detail, is just the opposite; it is obsessed with style, sometimes even at the expense of substance. Innovation springs from intellectual curiosity, a trait suppressed in cultures where questioning conventional wisdom is verboten.

In a country where technological leap frogging is often the only route to market penetration, examples of innovation-led gains abound. P&G's Olay, recently the mainland's most heavily advertised brand, is a titanic force, powered to number one by full-throttled R&D. Its Olay Total Effects 7X Visible Anti-Aging Vitamin Complex shattered perceptions of what a mass-market cosmetic line can affordably deliver. Unrivalled hi-tech credibility also enables Olay to sell a huge range of lower-rent items (including soap) without debasing its image. In the early 1990s, another P&G brand, the oft-mentioned Rejoice, profited from deep R&D pockets when it introduced two-in-one shampoo (cleanser plus conditioner), a format that now dominates the value-conscious, 'more is better' mainland.

Leading the masses

Until very recently MNC brands were, for the most part, relegated to niche status, targeting only the coastal cities' crème de la crème. Meanwhile, local players flooded the price-sensitive mass market. A few MNCs are now wising up to the importance of scale – i.e. a broad-based consumer franchise – in establishing a deep foothold in China. As usual, P&G is leading the charge. Its strategy has three pillars: first, dramatically slashing prices, particularly in low-involvement categories with limited product

differentiation (eg shampoo and soap); second, heavy media and R&D investment within high value-added categories (eg cosmetics, sanitary napkins); third, ruthless domination of distribution channels. P&G is graceful on the insight front but its real strength remains unleashing massive scale to conquer the hinterland. Smaller players, however, must adopt more elegant means of expanding their consumer base.

Reading the tea leaves

Some multinational companies are divining the future. Taiwan's Kangshifu, for example, knows noodles. More to the point, it knows how instant noodle preferences evolve when income rises and a middle class emerges. Specifically, growing wealth comes hand in hand with increased time pressure, triggering a demand for instant noodles. Kangshifu got in there early, dominated instant noodles when they were only indulgent novelties and, today, owns a massive market. To boot, is also well poised to dominate the next big thing – cup noodles.

In facial foam, currently a niche market, Boire is now investing in the same 'get them when they're young' strategy. Based on its experience with rising incomes in North America and Europe, it can map the shift from soap to body gel to facial foam with mathematical precision. Sharp is also an early bird; it currently has a tiny share of the TV market, but it dominates liquid crystal display (LCD) sets, the segment of the future.

Eye candy

Finally, MNCs are still better advertisers. They grasp the value of bull's-eye consumer insights, consistent messages, and the economic efficiency of both robust brand equity and a strategic media plan. Despite the scepticism with which marketing consulting gurus regard the advertising profession, Western companies acknowledge the supreme importance of a well-crafted benefit statement. Furthermore, the best of them are masters at developing visual brand properties.

MNCs are still better advertisers. They grasp the value of bull's-eye consumer insights, consistent messages, and the economic efficiency of both robust brand equity and a strategic media plan

In a market where 'keep it simple' carries the same weight as Biblical commandments, the ability to vividly communicate a proposition can be a do-or-die imperative. Rejoice's comb-drop shot (hands-free, it falls through soft, shiny hair) is perhaps the most effective demo sequence in advertising history. Cadbury's two-glasses-of-milk shot is integrated in every scrap of communication, from television and in-store displays to packaging. With no copy at all, it reassures mums that chocolate can be delicious and nutritious – well, at least not total junk food.

The battle continues

Local brands are still hobbled by key weaknesses including inconsistent messages, failure to distinguish between consumer-relevant copy and corporate propaganda, and confusion between brand awareness and brand equity.

That said, Chinese companies have made significant progress. More and more, they weave insight into communication. Furthermore, mainland enterprises are now more skillful at leveraging aspirational taglines and mnemonic devices. And they are taking baby steps on the product innovation front. Multinational competitors have spotted the threat looming on the horizon.

They have finally begun to brandish 'MNC weaponry', including the ability to localise products, grab the perceptual high-ground via high-end SKUs, dig deep into R&D pockets, arbitrage on future trends and design memorable visual properties. The Middle Kingdom battleground grows ever more interesting.❦

Tom.doctoroff@JWT.com

Why is marketing missing from the sustainability agenda?

By David Whiting

Sustainability is here to stay and companies are grappling with how to respond. Yet, as David Whiting argues, marketers are being left out of the loop, with the sustainability agenda too often in the hands of CSR with its different culture and language. He describes a mentality focused on satisfying externally imposed regulations and targets, with companies driven by considerations unrelated to marketing and thus unrelated to customers and their needs and wishes

IN THE 1980s there was a first flowering of what came to be called 'green marketing', but it foundered on the rocks of too many unproven claims and ineffective products, which began creating consumer cynicism. Despite initial appearances, we are almost certainly not currently witnessing a repeat of this experience but something much more profound that will have a more revolutionary impact on business and marketing as a profession. Business leaders are discovering that they need to consider a spectrum of issues, which until a few years ago, would have been regarded as either irrelevant or at best peripheral to the main task of increasing shareholder value.

Companies are under pressure from many directions to become more sustainable – from governments, NGOs (non-governmental organisations), investors, customers and end consumers. Employees, too, are focusing attention on sustainability and corporate responsibility. Sustainability has become a compulsory subject on MBA courses – it used to be elective – while children are being educated at school about the subject. The media is filled with stories about climate change, the depletion of rainforests, water shortages, the need to change future energy sources, etc. The weight of scientific opinion gives us no more than ten years in which to make significant

---

David Whiting is Principle of David Whiting Associates.

reductions in greenhouse gas emissions in order to avoid reaching a critical tipping point.

Research demonstrates clearly that consumers' attitudes are changing towards sustainability issues while they begin to take faltering steps towards changing their lifestyles. At the same time, however, consumers are confused and frustrated because they want to know what more they can and should do. They want to know that everyone is pulling together ('I will if you will') and that the changes they make in their lives are making a real difference, however small – a clear call for a feedback system. Chris Powell, in the spring edition of *Market Leader*, quite correctly identified the need for a more focused message from government and NGOs on what consumers should do, with legislation to back it up. These conditions will probably come about, but consumers also expect to see business playing its part: companies need to plan for the changing environment – in all its senses.

Despite one or two tentative attempts, such as the carbon labelling on Walker's crisp packets, there is little to guide consumer choice at point of sale. The BSI, sponsored by Defra and the Carbon Trust, is working on a specification for the universal measurement of greenhouse gas (GHG) emissions for goods and services, but a determination as to how this will be applied and communicated is still some way in the future.

Businesses are beginning to realise that becoming more sustainable can create new sources of competitive advantage, as well as achieving cost savings and stimulating innovation. Companies may well take the view that they cannot afford not to become more sustainable with the risk of public disillusionment, negative media coverage or even boycotts if they fail to take appropriate initiatives. Brand equity could suffer rapidly under such conditions. In addition, trade customers are increasingly putting pressure on suppliers to perform to higher standards in order to protect and build their own brands. Other perceived benefits of becoming more sustainable include the potential for providing a new motivator for employees and the creation of a key recruitment and retention tool. It helps companies to be more proactive in meeting the expectations of analysts, as well as anticipating future legislation and perhaps influencing the government agenda. Above all, some organisations will see that there is a moral obligation to behave in this way.

Who is driving the sustainability agenda?

This is creating a pressing problem for both the marketing profession and for the role of the marketing function in this rapidly evolving world. Companies characteristically locate responsibility for sustainability issues in a CSR (corporate social responsibility) function, which tends to be separate from the commercial functions. CSR is typically immersed in the language of the triple bottom line, reports and standards, and sees its main stakeholders as being city analysts, shareholders, NGOs and Whitehall. Its main objectives are usually concerned with minimising reputational risks and enforcing policies; it is not usually well versed in understanding the marketplace or how to generate and exploit consumer demand, nor does it necessarily speak the language of the consumer.

Marketing is frequently kept out of the loop in both the broader debate and at company level. For instance, a conference sponsored by The Ethical Corporation in March 2007, entitled 'Climate change: how to get your message across to consumers', completely omitted marketers from its target audience, an extraordinary oversight, but one that reflects who is managing the sustainability agenda. Nothing has changed a year later – a similarly entitled conference in February 2008 sponsored by the same organisation again omitted marketing from its target disciplines, despite covering a range of issues that should be on every marketer's agenda.

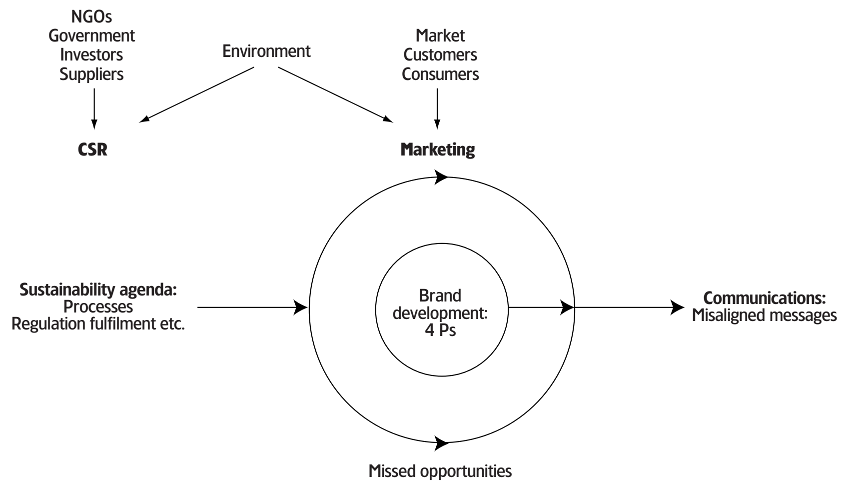
Marketing should be the ideal function to drive sustainability initiatives as it has the potential to resolve the dilemma created by the increased costs and/or demand for capital that frequently results. It is the function closest to the customer, it is traditionally where guardianship of the brand is sited, it leads and manages most communication activity, and it contains some of the most creative people in an organisation, able to envision and exploit market opportunities. Some companies, such as Unilever, Marks & Spencer and Diageo, are creating better integration by embedding CSR considerations into the marketing process but most companies seem to be lagging behind.

It is not too far-fetched to draw an analogy between what is happening in many organisations' response to the

Businesses are beginning to realise that becoming more sustainable can create new sources of competitive advantage, as well as achieving cost savings and stimulating innovation ... Other perceived benefits include the potential for providing a new motivator for employees and the creation of a key recruitment and retention tool

Marketing should be the ideal function to drive sustainability initiatives as it has the potential to resolve the dilemma created by the increased costs and/or demand for capital that frequently results

FIGURE 1



Source: David Whiting

issue of sustainability and the production orientation so comprehensively derided in Theodore Levitt's seminal *Harvard Business Review* paper 'Marketing Myopia', nearly 50 years ago. Levitt exhorted companies to view markets from a customer, rather than a production, perspective in order to determine which business they were really in and where the opportunities lay. Yet in the rush to become more sustainable, companies are tending to concentrate on how they can improve their processes to meet externally or internally imposed standards and targets. When this has been achieved, or part-achieved, emphasis is then placed on extolling the organisation's virtues to its various external audiences, including its customers.

In other words, we are also witnessing the other organisational emphasis that modern marketing was supposed to have banished – the sales orientation. Make it (or do it), then tell the world about it – does it sound familiar to any marketer at all versed in the origins of marketing? The current sidelining of marketing is in danger of creating a situation in which a return to a production/sales orientation will not only create misaligned communication with the external world but result in many missed opportunities (figure 1).

Why isn't sustainability in the marketer's remit?

What is missing is the strategic marketing process that brings an understanding and interpretation of the external world to bear on the development of competitive advantage that is then reflected in all the elements of the marketing mix. Sustainability issues need to be included in an identical process to other considerations in the marketer's remit to ensure that the company's brands are best fitted to achieving its goals.

- Where is the reflection on how the world, and subsequently the marketplace, might look in five or more years' time? (If ever there was a PEST factor, this is it!)
- Are the potentially very different needs of consumers in years to come being factored into the development of both new and existing products and services?
- How is the marketplace segmenting along new lines, based upon differing attitudes and behaviour in a more sustainable world?
- How do brands need to be positioned in order to compete in a low-carbon economy?
- How should sustainability factors sit in a hierarchy of attributes supporting the positioning?
- Is every element of the marketing mix being taken apart to both reflect likely future realities and to secure new sources of competitive advantage?
- Can the pitfalls so apparent in many of the 1980s initiatives be avoided this time around?

Perhaps above all, can we deal with the elephant in the room for marketers – the need to address the issue of achieving levels of consumption that are more sustainable in the face of a potentially impending crisis. An imminent recession may turn out to be a bump in the road in comparison to the implications of sustainability factors such as climate change.

Marketers must become sufficiently well versed in sustainability issues to begin to fulfil the new demands that should be being made of them. Otherwise, they are in danger of becoming permanently sidelined, no longer a strategic function but simply the implementers of tactical promotional programmes proclaiming some new 'green' initiative or other.

Only a handful of the hundreds of articles and papers written about the implications of sustainability for organisations by those working for NGOs, in CSR functions, and by their advisers, that I have read, come close to understanding the true role of marketing – in either the context of

The example of organic milk

An example of contemporary marketing myopia in a sustainability-driven market comes from organic milk. Until 2001 the organic milk industry was very production-focused and dominated by a 'deep green' mindset – in other words, the enthusiasts believed that their own motivations would be the same for the population at large. Up until spring 2001 the organic milk market was growing at 50–100% per year and demand exceeded supply. However, unbeknown to the industry at the time the deep green market was almost saturated and no one had attempted to understand the dynamics of the market as a whole. Almost literally overnight the market went into 100% over-supply as hundreds more farmers came out of organic conversion, incentivised by government grants. As a result, half of the UK's organically produced milk had to be sold as conventional milk at conventional prices.

OMSCo (the Organic Milk Suppliers Cooperative, which accounts for well over 50% of UK organic milk production) brought in professional marketing advice. Consumer research revealed that the organic 'dabblers' who represented the future of the industry were completely unlike the organic enthusiasts who populated the producers and NGOs and had driven early market sales. They had no interest in farmers and the rural economy and little interest in the environment – at that time – or animal welfare. Not surprisingly, it was their health and that of their families that was the prime motivator for purchase. Unfortunately, hitherto all the emphasis, and most of the evidence for claims, related to non-motivating factors. Crucially, it was also found was that very few consumers had any idea as to the price of ordinary milk and certainly not the organic premium.

While their initial response was to say that organic milk was too expensive, on probing it became clear that the issue was not the scale of the price premium (about 50% at that time) but the lack of understanding about the value equation. They wanted to know why organic milk was supposed to be better before they would consider purchase – the typical response was "milk is milk isn't it?"

We set out to collect the evidence we needed to support claims and to build a compelling and irrefutable proposition that organic milk was worth paying more for because 'it's healthier for you.' We developed a new brand identity for OMSCo, built an award-winning website, and launched a £1m PR campaign that ran for five years and featured stories such as higher omega-3 and vitamin E levels, absence of pesticides and GM content, etc. We also had to prove that reducing the price was irrelevant to the need to get consumers to purchase organic milk more frequently, even though almost everyone in the industry and supply chain, in addition to the NGOs, believed that because "the market is in crisis" the only possible course of action was to drop the price.

In fact, annual growth in sales of all organic milk products never dipped below 21% and by 2006 was at 44%; for liquid milk it rose to 65%. Household penetration of organic milk rose from only 8% in 2001 to 24% in 2006, a 200% increase. In London penetration rose to 35%. The industry went back into under-supply again in November 2005, after 4.5 years. We succeeded in adding value to a commoditised category (milk) and created an attractive and profitable new sub-category for retailers. Organic milk went from accounting for only 1% of milk sales in 2001 to 5% by value by the end of 2006.

sustainability or otherwise. Instead, marketing is either explicitly or implicitly alluded to as fulfilling a tactical role, responsible for short-term profits and 'selling the good news' to customers. Marketers live with the misperceptions about their profession all their working lives, but never perhaps has the misapprehension been so unfortunate and so critical.

Marketers must rise to this challenge. They must embrace (or be allowed to embrace), the longer timescales and wider domain that consideration of sustainability requires. They need to learn to work hand-in-glove with the CSR function in the same way that they have always been enjoined to with finance and sales. They should become the agents of change within organisations, bridging the gap between the need to meet a range of obligations and restrictions related to the achievement of a sustainable future, while at the same time realising market opportunities arising from these changes in order to increase business value. True integration of sustainability and commercial considerations – which will increasingly become one and the same – can happen only if there is much closer integration of the marketing and CSR functions.

In the rapidly evolving world of sustainability and CSR ... We risk forgetting the lessons learned so many years ago by the pioneers in modern marketing and letting a production orientation drive the sustainability agenda

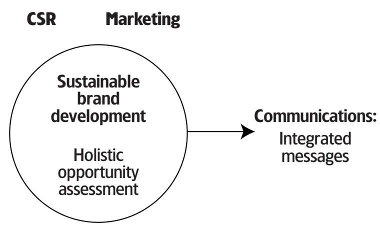
The organic milk case is a classic example of an industry that was fixated by the production, rather than the demand, end of the supply chain. What they saw was a market crisis, when in fact they faced a self-inflicted over-supply crisis and a very healthy market situation. They lacked the marketer's ability to see that the majority of consumer segments had very different perceptions of the world to themselves. This lack of insight, in turn, led to a reflex action that emphasised the importance of price rather than knowledge and understanding (by both suppliers and consumers). As a case study it demonstrates the vital role that marketing can play in revealing the realities and opportunities of a situation, rather than the myopic views that can result from production-led thinking.

Marketing is central to a sustainability programme

In the rapidly evolving world of sustainability and CSR, there is a grave danger of the pattern revealed above being repeated many times over. We risk forgetting the lessons learned so many years ago by the pioneers in modern marketing and letting a production orientation drive the sustainability agenda.

The danger is enhanced by a too-ready acceptance that those who have worked long and hard to raise business awareness of the implications of sustainability issues, and quite rightly occupy the moral and ethical high ground, have all the answers on how to compete in this changing world.

FIGURE 2



Source: David Whiting

For marketers this coincides with a period when the profession seems to be at greater risk of being misunderstood than at any time in its history, just when its skill set is so badly needed to deal with the hugely important issues that business faces. Marketing must raise its game in time to meet the challenge or we are going to witness the second coming of marketing myopia with potentially devastating results for both marketers and their employers.

Some ways forward ...

- Develop close working relationships with the CSR function and bring market insights to bear on sustainability strategy development.
- Lead the consideration of how to secure competitive advantage and an appropriate ROI from sustainability initiatives.
- Train marketing personnel to take a more holistic view of the business, looking for potential sources of competitive advantage throughout the supply chain.
- Understand and track developing consumer attitudes and expectations surrounding sustainability issues in your market.
- Assess the implications of a more sustainable world for the positioning of every brand in the portfolio
- Embed sustainability considerations into the development of all marketing programmes and every element of the marketing mix. ❦

Sustainability: a brief history of the major landmarks

1962	*Silent Spring* by Rachel Carson published
1976	Body Shop opens
1987	Brundtland Report sets out guiding principles for sustainable development
1988	*The Green Consumer Guide* published
1992	Rio Earth Summit acknowledges climate change real and human induced
2000	BP proclaims new mission to go 'Beyond Petroleum'
2004	Kyoto Treaty, setting binding GHG emission targets, is ratified
2005	EU ETS (EU Emission Trading Scheme) commences
2006	'An Inconvenient Truth' first screened
2006	Stern Report lays out economic implications of climate change
2006	Marks & Spencer launch 'Look Behind the Label'
2007	Series of IPCC (Intergovernmental Panel on Climate Change) reports lay out the science and implications of climate change
2007	Wal-Mart unveils 'Sustainability 360'
2007	Marks & Spencer announce 'Plan A'

mail@whitings.plus.com

The art and science of marketing

Diageo Marketing Director, **PHILIP ALMOND** talks to Judie Lannon about his career in marketing and how the culture, values and consumer focus of Diageo has made the company one of the world's great brand organisations

JUDIE LANNON: How did you get into marketing? Did you train for it , or was it a vocation or did you just fall into it?

PHILIP ALMOND: I suppose you could say I fell into it. I went to the Careers Service in my last year at university and they looked at my experience and said advertising was a combination of commerce and art. So that's what I did. I started off at Ogilvy & Mather on their graduate scheme and after two years went off to work in arts admin, in the early days of what was then called alternative comedy. At 25, I decided I needed to sort my life out. I talked to a lot of people to work out what to do, and eventually took a job at Craton Knight and Lodge, which was a new product consultancy. It was there that I got interested in proper marketing. The agency side is fascinating but I was really more interested in the client side, being able to run the whole thing and make the decisions.

JL: What was the eureka moment?

PA: I was working on a project looking at why Martini sales were declining and I suddenly realised that I loved both the drinks business and the whole marketing strategy, not just one bit of it.

The problem Martini was facing wasn't just a communication problem, it wasn't just a new product problem – it was a much broader set of related issues and I wanted to look at everything and solve the problem myself. The frustrations of advising and seeing one's advice ignored just got a bit too much after a while.

My natural route into clients then would have been through an NPD or a brand development job, but not many people were investing during the early 1990s recession, so there just weren't the jobs out there.

I decided to do an MBA at the London Business School and joined IDV as the economy picked up – initially in new brand development. I took on specific brand responsibilities when Diageo was created.

JL: Tell me about life at Diageo

PA: To begin with, I was marketing director of Baileys and a group of brands in this country and then took on the Smirnoff brand, where we successfully launched Smirnoff Ice.

I then got sent off for good behaviour – or bad behaviour, depending on the way you look at it – to Burger King, which was then within the group. It was more a sales job with TV advertising attached than a marketing job – managing franchisees and doing promotional marketing. It was a fantastically broadening experience.

When we sold Burger King I came back into Diageo to run the Smirnoff vodka brand globally for a couple of years and got started in this role nearly two years ago.

JL: At what point did the real importance of having a consumer focus register with you? How did that happen?

PA: I think I learned it initially at CKL which was very market research based, so you were talking to consumers all the time. I worked on a whole variety of projects such as looking at how you manage the Schweppes brand equity across

Europe, given that it's a mainstream carbonated drink-in-a-can in Spain, a mixer in Britain and something else in Germany. Big corporations have an overwhelming desire to pull all this together and gain the synergies. But you have to establish the fundamentals of what the consumer wants and balance that with what the corporation is trying to achieve.

You've got to be different from your competitors, you've got to be true to what the brand and the company are about and you've got to fit that with what customers require. Any solution has to meet all those criteria. So the real skill is in balancing those three, sometimes competing, demands.

JL: Do you think your experience in doing market research has made you more conscious of the limitations of research?

PA: Probably. Some of the worst mistakes I've seen in brand management have been made by listening too directly to what the consumer wants – and failing to interpret that in terms of what's possible, profitable and sustainable for the company. For example, if you put the Smirnoff name on any type of new product, consumers will say yes to it because the brand is so powerful. And, you can kid yourself any new variant could be a good idea because vodka is the ultimately flexible, mixable spirit and versatility is part of what it's about. But following that route without careful thought can be disastrous for the business and the brand.

So you have to understand the difference between what people say and what they really mean, or even if they mean it, and whether it is a good idea in the context of what's right for the brand or the company longer term.

JL: Diageo has gained a very powerful reputation as a skilled brand owner. How has this happened?

PA: We have a lot of people in this company who are passionate about brands and who have a distinctive understanding of the brands they manage. Also, we've developed tools that are really useful for codifying success when it's happened, and making it happen again. But although the tools are essential, the reality is that the big leaps often come from intuition.

JL: That's a very good point. Companies need to codify their practices if they are ever going to be able to learn from them.

PA: One of the things that is very valuable about having methodology like the Diageo Way of Brand Building (DWBB) embedded in the company is that having a common language about consumers and brands at the heart of your culture allows you to analyse and codify what you are doing. It makes it easier to communicate with other people in the company and with your agencies. But that is only the beginning. Relying on the rules to get you to breakthrough is never going to be enough.

JL: The importance of your methodology is a clue to why marketing is successful at Diageo. In what other ways do the company's structure, culture and values support you in your job?

PA: First of all, everyone recognises the importance of brands and everyone understands the importance of listening to consumers. Our company purpose – which is about celebrating life every day everywhere around the world – points you straight at consumer behaviour in drinks, and being passionate about consumers is one of our core values. It means that we have to think about consumers and the role our products play in different kinds of celebrations – whether your job title says you are in marketing or not.

The next thing is that senior management – not just marketing senior management – believes in the importance of marketing. The monthly results that go from GB to the European executive and then up to the global executive always have the latest consumer measures alongside our sales numbers – the preference measures and brand equity measures. These measures and others are looked at across all our brands at management level, which is an indication of the importance the corporation attaches to consumers and brands, not just sales figures.

The structure of Diageo is also important in supporting brand marketing. We have a consumer planning function and so we have a planner in every team who is the consumer champion for that business.

JL: Are these consumer planners the same breed of person that advertising agencies have developed and what is their particular contribution?

PA: They'll usually have both quantitative and qualitative market research brand experience and some may have been planners in agencies as well.

But the important thing is that they're not there to be ivory-towered planners. What I value from them is that they synthesise and summarise the huge amount of consumer data now available to us in order to drive the business. They're there to make those insights come alive for the team in a way that they can be acted on to drive growth.

That's why you have them internally rather than externally. Most of their work is directed by the people who drive the business, rather than creating a cottage industry in pure research methodology – which is an easy thing to create.

JL: How do you champion consumer-focused brand building through the other departments in the company? How do you avoid the silo effect that so many companies suffer from?

PA: The first thing is that everybody who joins Diageo gets a thorough education in what our brands are about, who they're targeted at, what we want them to achieve and so forth. A lot of our sales people have had the full DWBB training. When we first did it, putting everyone on the commercial side of the company through the DWBB was a big cultural change.

But it works. For instance, I was in a meeting the other day where the marketing people were arguing from a commercial point of view and the sales guy was saying no, it's about the brand. There are always trade-offs to be made but it's much easier and we have much healthier debates and discussions if all the individuals from the different functions have a common language and understand the ultimate aim of the business. We have created a common culture that accepts certain principles – that this business is built on consumers and brands as well as trade customers – and that there is value in long-term brand building.

JL: Looking back over what you have achieved so far, what would you say are the things that you're most proud of and what are the things that you wish you'd done differently, either in your career or as business decisions?

I'm immensely proud of the launch of Smirnoff Ice ... the core vodka brand is now twice the size it was before Smirnoff Ice – so the core has benefited too

PA: I don't think I regret anything in my career, although I moved around and tried different things early on. But I made those moves in order to find the right place to be and I value the experience I got before coming directly into marketing.

In terms of business issues, the ones I'm proud of are the ones where there's been that combination of good, solid basic thinking with a strong element of gut feel and risk-taking which have led to a major improvement in the brands.

JL: Which have been the most satisfying?

PA: Smirnoff is one of those I've been most associated with. I'm immensely proud of the launch of Smirnoff Ice. Not only was it a successful breakthrough for the brand at the time, which built us a multi-million-pound business, but the core vodka brand is now twice the size it was before Smirnoff Ice – so the core has benefited too. There were rational arguments to say why that was the right thing to do, but also lots of rational arguments to say why it was the wrong thing to do. And so I'm proud of being part of the team that launched that initiative.

JL: Anything that you wish you'd done differently?

PA: There are always things that I wish I'd done differently. In the drinks industry there are fashion trends in drinks you wish you'd spotted sooner – the shift to cider and rosé wine in recent years are examples. The only decisions I really regret are the ones where there was something niggling at the back of my mind saying 'this doesn't feel right' – but at the time you let your instinct be over-ridden for lots of rational reasons like research, or because you wanted to give an individual his or her head, or you felt that actually you should compromise in the interests of moving forward. So you regret those decisions when your gut feeling told you something wasn't quite right – because you could have done something about them.

JL: Finally, what would be the three most important pieces of advice you'd give to someone who wants to instil the kind of consumer-focused culture that you have at Diageo in their company?

PA: First, it's got to come from the top. It's got to come from the executive level. It's got to be modelled by the sales and managing director as much as by the marketing director. It has to be rolled out from the top and it has to be meant sincerely. People know if you're just paying lip service.

Second – measure it. Measure what's happening with consumers and treat those numbers as important and review them regularly. Even if you're not getting massive insights all the time, metrics are a signal, and an important signal, that this stuff matters and that we care about it.

And the third thing is to train it into everyone. A consumer focus makes sense and no sales person, no finance person, no HR person would disagree with you when you say that ultimately we've got to appeal to the end customer if we're going to win. But the discipline often gets in the way day to day.

It's important for everyone to go through some form of training to see the implications and to see where their job fits in. Marketing is too important to be left just to the marketing department.❦

Philip.Almond@diageo.com

The challenge of happy customers

By PAUL WALKER

Few major brands seem to know what to do with happy customers. Companies are so busy firefighting complaints, that all sorts of opportunities are missed by not following up their customers' enthusiasms. Thank you might be a way to start. Paul Walker reports on an insightful experiment in the US, looking at how companies relate to satisfied customers.

OVER THE PAST year, GCI Digital Media has worked with Dell, Nike, Red Lobster, Olive Garden, Whole Foods and other leading US brands to implement programmes, often digital, to generate positive word of mouth while decreasing the negative.

In the course of our work we've come across a type of customer that is far too often taken for granted, ignored or worse: the Happy Customer. These are the customers that absolutely love a brand's product or services so much so that they are willing to take the time to tell the brand via email, phone, 'snail mail' or blog.

Unfortunately, their 'thank yous' are more often than not for naught.

Our hypothesis

Major brands don't know what to do with happy customers. They make it hard for customers to say thanks and way too often companies don't celebrate and embrace customers' positive gestures. And, if they can't do that, how can they motivate them to tell their family, friends and peers how happy they are with the brands' products and services?

Take the case of one Mr Burger. He bought a new Dell 19-inch flat-panel screen that he loved so much, he sent a thank you note via Dell's website, which went something like this: 'No problem! I just wanted to tell you that I just received the monitor … and it's awesome … I can already tell that it's the best $500 I've spent in a long time. Thanks!' A few days later Dell responded: 'Dear Mr Burger: Thank you for contacting us about your issue ... I sense you are not getting optimal performance from your system… I'm committed to resolve this issue with the monitor.'

Top performers overall

Here are some interesting stories from the top and above-average percentile performers:

- Kroger provided one of the best overall experiences via phone, email and mail. While it did not thrill our researchers, it executed really well. Their contact information was easy to find. The 800-operator was polite and offered to take down our details in order to channel the praise: Sharon from consumer affairs sent a personalised, gracious 'thanks for the thanks' email. Ginger from consumer response sent us a really nice letter and a postage-paid card to encourage us to send our local store a 'thanks', too. Overall, nicely done.

- Nike performed admirably via email and mail. But it is probably number one via phone. The Nike representative sounded thrilled that our researcher was happy with her Nike Frees. In fact, she said she had the same shoes and she loved them, too. She suggested, 'if you love those, then you should think about a Nike+ because I have one and I love it, too.' Now the representative was a peer that loved Nike gear and not a representative at a big brand. I told a Nike executive about its good results. She reminded me that Nike gives 50% discounts to all employees, and they take full advantage.

- Middle-of-the-pack performer and clothing retailer Vineyard Vines' agent also engaged in a casual, friend-to-friend conversation. In the course of the discussion she offered a 'sneak preview' of its fall line, which only a few VIP customers had viewed. Nice idea.

- Top percentile performer Anheuser-Busch managed to inject a little humour into its well-written response to our email: 'we hope that you'll crack open a cold one soon!'

- The school uniform provider Education Outfitters responded the quickest – literally minutes – with a sincere note from the CEO. He also politely asked for the specific store from which the uniform was purchased so he could tell them thanks, too. This was common among top-percentile retailers. How are you going to channel praise to your retail stores and retail partners?

- Middle-percentile performer Kellogg's sent us really modest tokens of appreciation: three vintage cereal bowls and a handful of 'free product' coupons. But the bowls had a real effect on our researcher. She acted as if someone had just bestowed Ming Dynasty porcelain on her! In short order, most of the people in the office knew about them and wanted to check them out. Simple, but clever gestures go a long way in keeping customers and generating positive word of mouth.

Mr Burger may still love his monitor but now he has some questions about the company. He also shared his experience with David Pogue at the *New York Times* who featured Mr Burger's story in his weekly column.

Think about it, there's no 'press 2 to report a great experience with our products and services' command on companies' phone systems; or imagine this: a 'thank you button' on their home pages so customers can escalate their amazing experiences. There's no internal RSS feed for all employees around the world so they can enjoy a constant flow of 'way to gos' from happy customers. And, most brands just aren't doing a lot to motivate and enable their vocal happy customers to tell their peers.

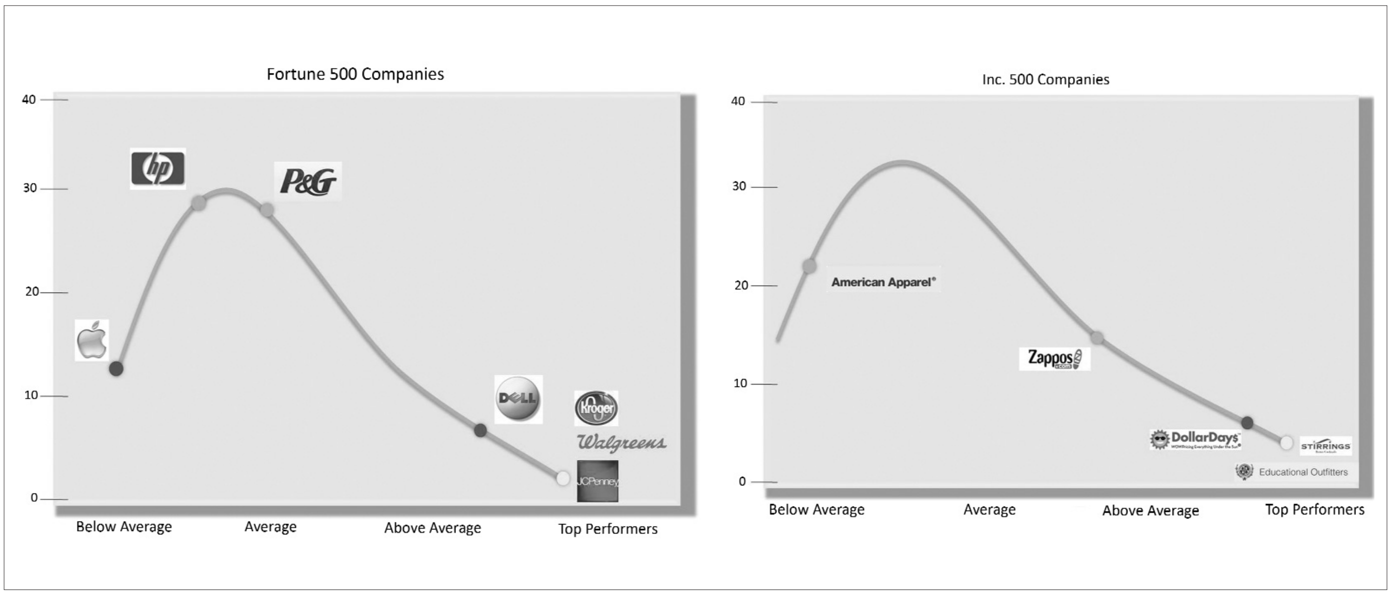
This lack of and/or poor response is a sad state of affairs for major brands. It is, however, partially explainable: we all want to take care of dissatisfied customers *fast* because we know they are going to tell a bunch of people – and that is going to cost customers, prospects and sales.

In fact, the Wharton Retail Customer Dissatisfaction Study 2006 showed that only 6% of shoppers who experienced a problem with a retailer contacted the company, but 31% went on to tell friends, family or colleagues what happened.

Overall, if 100 people have a bad experience, a retailer stands to lose between 32 and 36 current or potential customers, according to the study.

So, of course, it is vital that brands' commitments to resolving the issues of dissatisfied customers continue. But this objective is so consuming that brands often pursue it while forgetting – or even ignoring – happy customers. More specifically, their most vocal happy customers. That's a problem brands really should solve, for a number of reasons.

To determine just how widespread this problem is, we recently implemented a 'secret shopper' experiment with a twist – our researchers said 'thank you' to 100 major, consumer brands – the top 50 *Fortune* 500 and the top 50 *Inc.* 500 – via email, phone and snail mail (see above). We also monitored the blogosphere, forums and social networks to see if we could find any evidence of the 100



companies proactively saying 'thank you' to their customers (see page 57 for sample and method).

Then we sat back and recorded what happened. For each channel, a company was scored on a 0–10 scale, where 40 was the maximum possible score for a campaign.

Highlights

The most startling result is this: we did not hear back from 36% of Fortune companies and 60% of Inc. companies. Of those that did respond, no company achieved a perfect score of 40 by responding well to customers across all four channels.

Here are some other highlights:

- You'd be hard pressed to reach a real human being at about 30% of either the *Fortune* 500 or Inc. 500 companies, regardless of your intent. They just don't pick up the phone; they make it impossible to contact them.
- Of companies that were contacted and responded via email, we never heard back from 36% of *Fortune* 500 and 60% of Inc. 500 companies.
- About 60% of *Fortune* 500 companies were quick with formal email letters that promised further follow-up, but 33% did not follow through.
- Of the companies that we were able to reach via 800-numbers to say thanks, almost a quarter seemed to be totally surprised and confused about how to respond.
- Only 10 companies of the 100 sampled sent an acknowledgement letter to thank you letters sent via the U.S. Postal Service.
- Only two companies in our sample were proactively and extensively monitoring blogs and online venues. Both companies opportunistically say 'thanks' to happy customers.

What separates top performers?

There are four major characteristics shared by the top scorers in our sample:

1. Though none of the top performers provided an obvious, easy way to say thanks, they also didn't make it a mystery. A happy customer should not have to work to say thanks to a company or fill out a lot of 'paperwork'.
2. With finesse and speed, top percentile performers can tell the difference between happy customers trying to say thanks from dissatisfied, complaining ones. In an effort to respond in a timely manner, too many companies send this kind of form letter: "Sorry you are having problems... we'll get back to you as soon as we can..." That can amount to a slap in the face to a customer just trying to say thanks.
3. Top performers come off as real people. Nothing they do makes customers feel like they are dealing with an agent on script or an auto-response system. That's important, because it's easier for customers to have a relationship with a person than a brand.
4. Building on this, top performers personalised their responses across the channels (or at least made them seem personal)... Poorly written form letters were the norm for middle and bottom performers, and they probably do more harm than good.

Top-percentile performers

There were only three *Fortune* 500 and three Inc. 500 companies in the top 95 percentile of our rankings. Overall, the top Fortune 500 companies were Kroger, JC Penny and Walgreen (see *Fortune* 500 curve). The top three Inc. 500 companies were Stirrings (cocktail products), Educational Outfitter (provider of school uniforms) and DollarDays (low-priced wholesaler) (See Inc. 500 Curve). A number of our middle-percentile performers might also be called – 'thanks, but no thanks'. A number of them were solid on first contact, but failed to follow through. Sara Lee is typical of the 'thanks, but no thanks' brands. The Sara Lee phone representative was solid. She was a really happy lady who shared our researcher's enthusiasm about its products. It was clear that she, too, was a fan. However, Sara Lee followed up with a form letter that said it would 'research' the issue and get back to us. Since there was no issue, I wonder if we'll ever hear anything!

Finally, here is a story from the blogosphere and one of our middle tier performers: on 1 February, 2007, Jeremy Epstein (who happens to work for Microsoft), posted 'Ode to Metamucil' on his blog. He said his dad and brother helped him discover the benefits of fibre. This is probably too much information, but the trio created a German word to describe the 'feeling of cathartic satisfaction that Metamucil yields … ': Die Freilichemorgenausgang, which roughly translates: 'joyous morning exit'. In any case, he and his family love Metamucil. The same day, P&G's Metamucil brand manager commented on Jeremy's blog post and said thanks. Bravo, P&G!

A couple of weeks later the brand manager emailed Jeremy to say that his brand team loves his blog, and offers Jeremy samples of new flavour of Metamucil. Jeremy is ecstatic. He sends the brand manager his mailing address and excitedly awaits his package of fibre. 14 April (two months later): Jeremy outlines the situation. No samples have arrived. No further emails from P&G. Jeremy sums up his feelings: 'I mean, it's freakin' Metamucil! What company wouldn't want to stoke the fire of someone talking about their products? If you're a company and you can't take advantage of that, then you've got a problem. It's not like it's an iPhone.'

Two weeks later Jeremy reports that he just received an apology letter from P&G for the delay inside a 'big ol' box of Metamucil …'. Jeremy still uses Metamucil, but doesn't feel as loyal after P&G's 'thanks, but no thanks' behaviour.

Here are four actions to help brands become top performers in establishing relationships with their happy, vocal customers:

1. Test yourselves and learn more about your happy customers. Do a complete audit to understand the gaps that need to be closed in your major markets around the world. It would also be worthwhile to know how many of your customers proactively say 'thank you' and how many people they tell about their positive experiences – this is measurable today through research.

2. Immediately implement the 'common courtesy business process'. Say 'thank you for your thank you' like a champ. Don't miss an opportunity. This is not rocket science, but doing it well has a lot of upside potential. And, it's the cornerstone of world-class word-of-mouth marketing.

3. Provide free happy customer 'juice' for employees whenever they need it. Pumping real customer 'thank yous' into the organisation is rich fuel for motivation, as well as innovation. It's a good reminder for managers re-engineering business processes that processes should be configured for happy customers, too.

4. Make your vocal happy customers VIPs. Once you 'ace the basics' of saying thank you, there is a significant opportunity to take it to the next level and make your happy customers VIPs. Give them an opportunity to preview new products, for instance.❦

This is an abbreviated version of a speech presented at the Dell Buzz Summit in August 2007, in Austin, Texas.

pwalker@gcigroup.com

Sample and method

Sample: Top 100 major consumer brands: Top 50 *Fortune* 500 and 50 Inc. 500 consumer brands.

Over the course of six weeks (July and August 2007), GCI's research team reached out and thanked 100 companies for their product or service via four channels:

1. snail mail: Sent to corporate headquarters; addressed to the CEO
2. email: most relevant email listed at company's Contact Us page; addressed to the CEO
3. 1-800 number: most relevant toll-free number listed at company's Contact Us page
4. digital media: monitoring of the blogosphere, forums and social networks for evidence of the 100 companies proactively saying "thank you" to their customers.

For each channel, a company was scored on a 0-10 scale: 40 was the maximum possible score for a company. Quantitative criteria for scoring included:

- ease of finding contact information
- accuracy of contact information
- time lapse of response
- completeness of follow through (eg leave a message, and we'll get back to you
- degree of personalised, 'humanised' (as opposed to scripted) response
- reaction to and handling of the 'thank you' (live phone agent)
- offer of coupons, token gifts, complementary product/service (eg well, if you like that, you should check this out) or exclusive information (eg sneak peek at fall fashion).

Springsight or thinsight?

Mark Simmonds describes how to turn insights into springsights.

INNOVATION WITHOUT INSIGHT is failure. The Apple iPhone, Tesco, Nintendo Wii, Innocent, Jamie Oliver, *X Factor* are all winners because they are firmly rooted in customer insight. A large number of international brand-driven companies understand its importance and have undertaken programmes to upskill their marketers. However, participants on workshops that I run often confront me with the slightly sobering question: 'I know that insight is really important, but how do I know when I have found one'!?

A typical insight definition generally contains two core elements. For example, 'A penetrating discovery about underlying needs or motivations that creates opportunities for growth'. The first element refers to the customer, the second to the way in which this might usefully be exploited by the business. The sequence is also important. Marketers are encouraged to develop ideas from customer needs, not the other way round.

The definition of a springsight is 'a rich word or phrase, important in the life of the customer, providing an exciting springboard to solutions that address the brand issue at hand'. The added value in this definition is primarily the front end of the statement because it is the stimulus of creative language that can give brand teams a better chance of developing winning ideas across all elements of the marketing mix.

Some examples of springsights and the resulting ideas are shown in Figure 1.

It is important to stress that the springsight is not replacing the need for creative work, but what it is doing is defining the creative landscape within which exciting ideas might reside. The harder you work to develop the springsight, the easier it is to find these rich landscapes.

Looking more closely at the words and phrases used in the springsights in Figure 1, it is also important to examine the balance between functionality and emotion. 'Getting messy' and 'swigging' are functional words. 'Learning, having fun' and 'relieving midweek eating tedium' veer more towards the emotional. It is a myth that insights have always got to be deep, meaningful, penetrating and steeped in emotion.

Mark Simmonds is an independent trainer/facilitator operating in the area of Insight and Idea Development.

The definition of a springsight is 'a rich word or phrase, important in the life of the customer, providing an exciting springboard to solutions that address the brand issue at hand'

The most important criteria is that the insight points towards a tangible, exciting and differentiating solution for the brand task at hand. If this is packaging innovation (Calippo Shots), then the insight may well be functionally based. If the task is to develop brand positioning or communication (Persil), then the split between functionality and emotion may be more evenly balanced.

The opposite of a springsight is a weak and watery thinsight. The latter contains no richness of language or expression, leaving you struggling to see how the insight might address the brand issue at hand. No obvious springboards or bridges, very little creative direction. Thinsights often contain generic words such as 'quality', 'confidence', 'guilt', 'reassurance', trust', 'happiness' and 'loyalty'. Each of these may well represent fundamental and important customer needs or motivations, but they often do not contain the necessary 'oomph!!' to lead us into very exciting territories.

How do you get springsights?

The first stage is having a clear understanding of the 'space' within which you are looking for springsights. Which business issue are you trying to address? Which part of the category are you focusing on? Which target market are you going after? Which customer behaviour are you trying to change? What is the role of the springsight in brand development?

Sainsbury's were looking for a campaign idea that got every customer to spend a little extra each time they shopped ... to put one more item in their shopping basket on each visit. Persil was searching for a positioning to differentiate itself from Ariel, the market leader.

Having a better understanding of this strategic space means, first, that you are more likely to be looking for springsights in the right place and, second, you will be in a better position to judge their quality and worth when you develop them.

The second stage in springsight development is to carry out a rigorous and holistic information trawl both inside and outside the category. The trick here is to make sure that you open up as many windows as possible – talking to existing customers, studying the competition, interviewing experts, exploring adjacent categories – partly because this is one way of exposing yourself to language, expression and ideas that might be new to your category. Adam Morgan, in his book *The Pirate Inside*, refers to 'Insights of Opportunity', which are often hunted down outside the category in question in order to find differentiation within. The Apple iMac puts romance into computers. Lush, the bath and cosmetics retailer, has 'stolen' freshness, colour and the sense of theatre from the deli counter to help it stand out from the crowd.

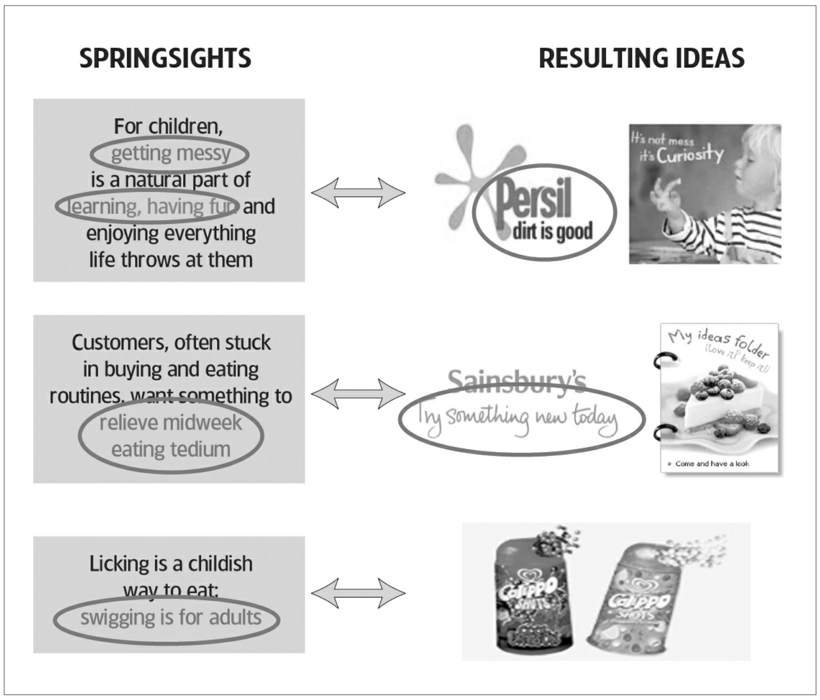


Figure 1

Listening for springy words

The two key skills required in springsight development are those of listening and questioning. Traditionally the domain of the market research function, marketers are now being asked to get closer to their customers, and this means that they need to develop and finetune these core skills.

Listening first. Read the extract below. This company is looking for a new washing powder concept that is not about either stain removal or cleaning 'whiter than white'. The target customer is a mother talking about washing clothes, and you, the marketer, are listening to her.

'I wash clothes every other day. I don't really enjoy it, it's somewhat of a chore, and I really wish that I was doing other things! My kids are always out and about, doing what kids do best ... getting dirty! I hardly ever buy any new clothes for myself. I wish I could but I don't. They are so expensive these days. Unfortunately, this means that my clothes look so old and tired, a bit like me really! I wish that I could spruce them up a little, bring them back to life! It's almost like they need to be re-energised, re-vitalised. Every month, I go to the spa, just for a bit of a treat…..does me a world of good. I sometimes think that my clothes should visit the spa too!'

Which words or phrases above do you find interesting? Which ones might form the basis of a springsight? 'Spruce up','re-energised', 're-vitalised', 'spa', 'does me a world of good', or a combination of some or all? Which concepts or ideas are starting to take root in your mind?

Listening is an important skill to acquire because people often use their most creative language when they are talking. Conversation is a spontaneous and approximate act where metaphors, mixed metaphors, analogies, rich, rude and expressive language are often used, in unguarded moments, to describe key thoughts.

Unfortunately, our own human nature often conspires against effective listening for a number of key reasons: we are more often interested in ourselves; we spend most of our listening time, mentally preparing for our next questions; we tend to listen out for things that confirm what we think; we are suspicious or dismissive of linguistic eccentricity. We are often not really sure what it is we should be listening out for!

Questioning to root out springy words

If exciting and rich language does not automatically spring forth from the mouths of customers, then skilful questioning is required to find the golden nuggets that underpin springsights.

If we take the previous transcript from the mother, it is probably fair to say that most of the interesting words and phrases do not emerge until the last few lines. Up until the point that the mother says 'I hardly ever buy any new clothes for myself', you would be hard pressed to find any creative clues or springboards.

Therefore, in order to encourage the customer to enter exciting new territories, it is important that the interviewer has the ability to ask a number of exploratory questions that will take the discussion down paths of potential.

Figure 2 (on page 66), shows how the interview might have progressed.

In order to find nuggets of interest that might underpin high potential springsights, the

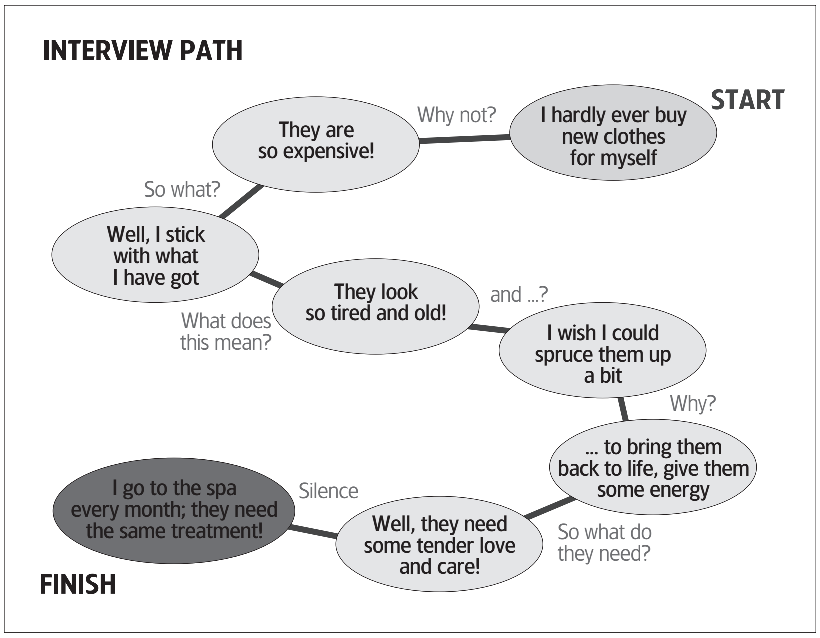


Figure 2

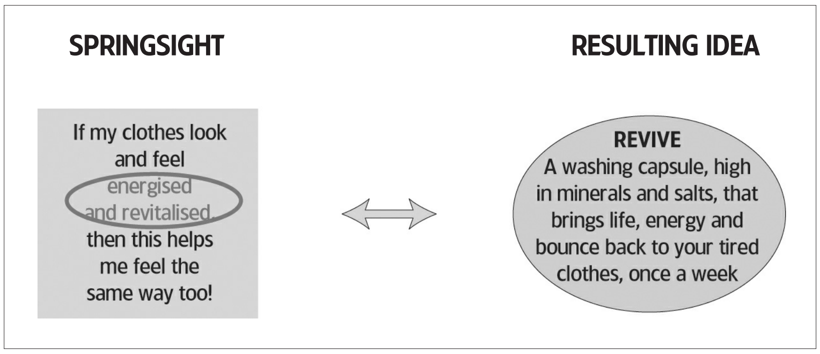
interviewer needs to interrogate the target customer with the skills of an inquisitive detective. He/she needs to:

1. have a clear vision of what a springsight 'nugget' might look like
2. use a range of appropriate questions to move from one answer to the next (Why? So what? What do you mean? ….and? Silence!)
3. listen extraordinarily hard to the answers, missing nothing
4. celebrate and explore enthusiastically words or phrases that stand out, jar slightly, feel out of place or unusual
5. drill down as deep as possible, but accept the fact that there will be dead ends from time to time.

Once the drilling is done, using one or more start points, stand back, reflect a little, and locate nuggets with potential. Which combinations of words or phrases excite you and provide seeds for ideas that might address the brand issue?

Obviously a hypothesis is required for illustration purposes, so how about the example shown in Figure 3?

Figure 3



Although a springsight is not a replacement for creative work, it does pinpoint the creative territory within which ideas can be found and developed. This is important because, at the end of the day, it is ideas that customers buy and not insights!

Summary

Insights underpin all elements of successful brand development.

A springsight is 'a rich word or phrase, important in the life of the customer, providing an exciting springboard to solutions that address the brand issue at hand'.

Although strategic considerations are undeniably important, the tactical skills of listening and questioning required to unearth and develop springsights are crucial.

And even though a springsight is not a replacement for creative work, it does pinpoint the creative territory within which ideas can be found and developed. This is important because, at the end of the day, it is ideas that customers buy and not insights!

Final thought ...

Next time you are asked that slightly troubling question, 'How do I know whether I have got an insight?', you will have an answer: 'Is it a springsight or is it a thinsight?'❦

References:

Persil 'Dirt is good':
www.persil.com/ThirtyThreeThings.aspx
Sainsbury's 'Try something new today':
Institute of Practitioners in Advertising, IPA Effectiveness Awards 2006.
Calippo Shots:
Nichols, D., (2007) *Return on ideas: a practical guide to making innovation pay.* John Wiley & Sons.
Morgan A., *(2004) The Pirate Inside: Building a Challenger Brand Culture Within Yourself and Your Organizations.* John Wiley & Sons

mark@brandtalk.co.uk