CHAPTER 1

Why Marketers Can't Predict Customer Behavior—Whoops, Now They Can

If you want to do something new, you have to stop doing something old.

—*Peter Drucker*

Most twentieth-century marketing research, no matter how updated, is basically a superb rearview mirror. The problem with rearview mirrors is that they make for very crummy windshields. They don't help you see what's about to hit you in the face. Data mining and Customer Relationship Management have made it possible to be excellent at knowing the past, and even get up-to-the-minute feedback on the present. But as a trend predictor, the bulk of the research I see (and am asked to salvage) usually produces what we call "excellent answers to meaningless questions"—analysis that may be impressive, may be phrased brilliantly, and may even be true but is totally valueless as a leading indicator.

Yet that is what you need your marketing research to do: help get you where you want to go, by the most direct, cost-effective route possible.

Despite all the rhetoric, hype, and promises, there seems to be a robust market for *lagging* indicators dressed up in new clothes. It's no wonder researchers are increasingly uninvited to, and even banished from, the table where the decisions are made, given what many of them offer as answers and insights.

To a limited extent, traditional research can help inform brands about what's going on "out there," externally, in the market, and in the words of the consumer. But there is much more to the story, and it is now a much more knowable story. Given the way the world works today, present-tense thinking is no longer enough. It's essential to predict not only what customers want but also what they *will* want.

Some marketers are blessed with what can only be called a gut feeling for the market at any given time. But few can really see the future so clearly that you would be willing to bet your money, your career, or your brand's future on their vision. And few researchers do a remarkably good job of measuring the *direction and velocity of customer values*—and identifying the values for which customers have the highest expectations.

A while ago, we received a mailer from a major research trade association advertising a market research conference entitled, "Earning a Place at the Table." The blurb asked, chillingly we thought, whether researchers have a place at the table where marketing decisions are made, whether they have *earned* that place—and whether they would even know what to do if they had. Wow.

This is scary stuff regardless of the way you feel about research. Research is at the very root of all intelligent, directed action in business. Did something happen to this premise while we were out grabbing coffee? What sensible person or organization acts without understanding context, alternatives, and probable consequences? Who in their right mind would dive into a business, social, or military program without due diligence—in other words, without good intelligence or proper research?

The problem lies squarely with what currently constitutes "proper research." At another organization's conference, the Advertising Research Foundation anointed the consumer as the "new marketing compass," assuring attendees that acknowledging this idea would lead the way to profitability and, one assumes, a place at the decision-making table. This was echoed on the January 15, 2006, cover of *Marketing News,* which announced this year's marketing outlook to be: "Under My Thumb: The Consumers Take Control." Well, the consumer has been in control for a while now. Proper research isn't always the old model stuff, no matter how it gets dressed up for the new millennium.

The problem, and the trick, is to identify research that gives you the best chance of always measuring *how* to meet or exceed customer expectations. The best research constantly updates understanding of *customer values and how they impact expectations.* Understanding that concept, and acting on it, is what will bring research back to the table where key decisions are made. We need research techniques that slip behind respondents' unconscious defenses and other right-brained shenanigans. Methods that can show where customers' loyalty drivers lie, and where not just present satisfaction but also future happiness lurk—for the brand as well as for the customer.

If good research is not influencing corporate decision making as much as it should, there are reasons. Repeated attempts to bundle telecommunication services, create concepts like Pets.com, or produce *Martha Stewart-The Apprentice* type of advertising strategies did not occur in a vacuum—without some sort of research on which to base those magnificently failed plans. Most companies like these realized how little they understood only after their "compass readings" misled them and the brands tanked.

So, what is to be done? What's the solution? How do we get research back into the boardroom, back to the decision-making table? A good first step is for researchers to recognize, even admit aloud, the limitations of traditional research and the benefits of updated methodologies.

To illustrate the power of loyalty metrics, we're going to start with some "real example True Tales" that my firm has collected on some leading brands.

The loyalty metrics are expressed in easy-to-read bar charts. Each product category is described in four bars representing the *category drivers* that are listed (from left to right) in order of their importance to the customer in the engagement-purchase-loyalty process. (Despite the simple labels on the category drivers, each is made up of multiple components—attributes, benefits, category values, and consumer values.)

The order of importance of the drivers reflects how the consumer views the category, compares offerings in the category, and, ultimately, will buy in the category (and if you do your job right, buy again and again). That is, when thinking about which brand to buy, consumers will naturally give greater emphasis to the more important loyalty drivers.

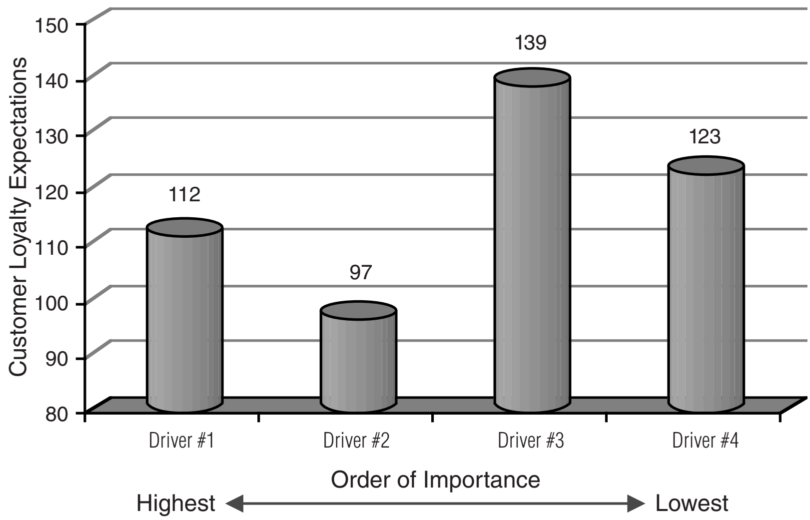
The height of the bars—the indices—indicates the level of expectation that consumers hold for each of the drivers (see Figure 1.1). It is possible for a consumer to have higher expectations for a less important category driver, as is usually the case for category values like "Price"—where it is not, except for commodities, the most important driver, but rather the driver for which consumers hold very high expectations—they want to pay as little as possible.

The benchmark is 100, so a 112 means that the expectation for the driver is 12 percent higher than the norm. The higher the index, the higher the level of expectations a consumer has for a particular driver.

A higher index for your brand is better than a lower index (some things in research *never* change), and a brand's equity (i.e., its strength in the category) is judged by its capability to *meet* or *exceed* the expectations that the consumers' hold for the drivers that define the category Ideal (i.e., the theoretical yardstick against which all offerings are ultimately judged). Examining the brand on a driver-by-driver basis allows you to diagnostically measure your strengths (and weaknesses) against an ideal or competitive set.

Because marketers sometimes want to discuss or compare a brand on an overall basis, a single-index number representing the weighted average of all

Figure 1.1
An Example of Category Drivers



four drivers provides this overall brand equity measure, which we call the *Overall Brand Equity Score*. Higher is better here, too. The true value of these metrics is that they are predictive, with shifts in category values and brand assessments that show up 6 to 18 months before they do in traditional research efforts or in the marketplace itself (and, shortly thereafter, the balance sheet).

TRUE TALES

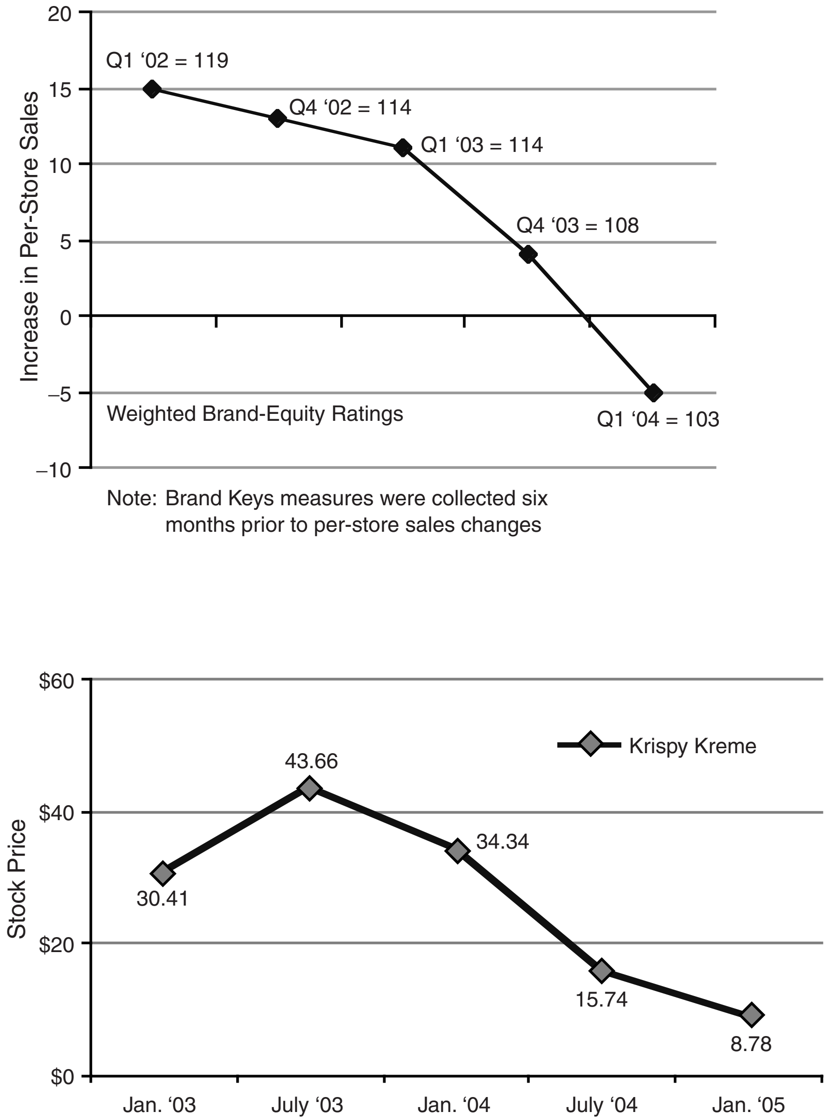
Krispy Kreme

In the first quarter of 2003, when the entire world was riding the Krispy Kreme stock-price high, our Brand Keys metrics accurately predicted that the brand was heading for a fall due to unmet consumer needs and expectations. By the third quarter of 2003, new store sales were below expectations. By the second quarter of 2004, the average weekly retail customer counts had declined severely, leading to a stock price decline of nearly 60 percent (see Figure 1.2).

Miller

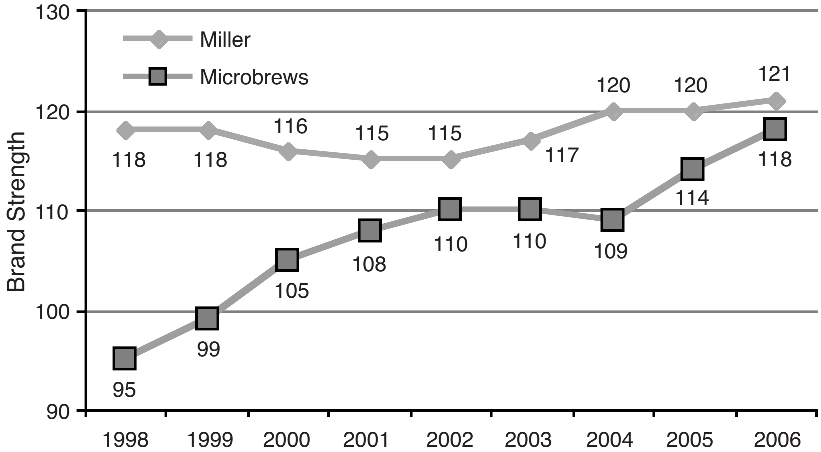
The Miller Brewing Company reported declining sales for the Miller Genuine Draft brand in 2003 and 2004. But as early as 2000, when sales appeared sta-

Figure 1.2
Krispy Kreme Brand Keys' Assessments and Stock Prices



ble, our Brand Keys metrics documented that Miller was losing ground with respect to its delivery to the consumer of the key brand loyalty drivers. We predicted that the brand would lose previously loyal customers, which it eventually did, to brands such as Corona and the microbrews. It has come back since, but keep your eyes on those microbrews (see Figure 1.3).

Figure 1.3
Miller Beer versus Microbrews



Coke

Coca-Cola experienced booming sales and earnings in the mid-1990s. Since then, all major soft drink makers have been challenged, with Coke's retail sales performance lagging behind its top competitor, Pepsi-Cola. Since the first quarter of 1998, the Brand Keys metrics accurately predicted an annual decline in Coke's brand equity and customer loyalty—predictions that correlated highly with actual Coke sales and Pepsi's gains (see Figure 1.4).

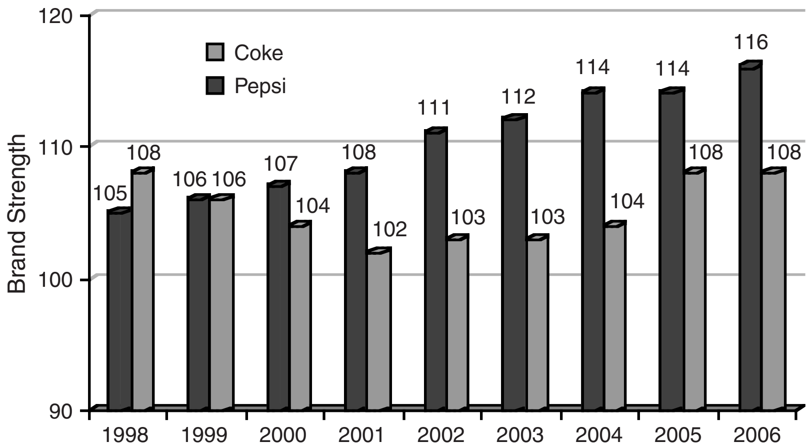
Martha Stewart Omnimedia

The Brand Keys metrics accurately predicted the directional rise-fall-try again of Martha Stewart Omnimedia profits across 27 separate points in time between May 20, 2002 (before the stock sale scandal) and to date. The loyalty metrics correlate perfectly with Martha Stewart Omnimedia profitability, or lack thereof (see Figure 1.5 on page 22).

Problems with Most Loyalty Research

I'm haunted by a scene in the movie *Monty Python and the Holy Grail*. A scraggly band of Pythonesque crusaders approach a castle. "I'm Arthur, King of the Britons," shouts the leader to a soldier atop the parapet. "Come and join us in the quest for the Holy Grail." The soldier leans over the edge and shouts, "Go away, we already have one!"

Figure 1.4
Coke versus Pepsi

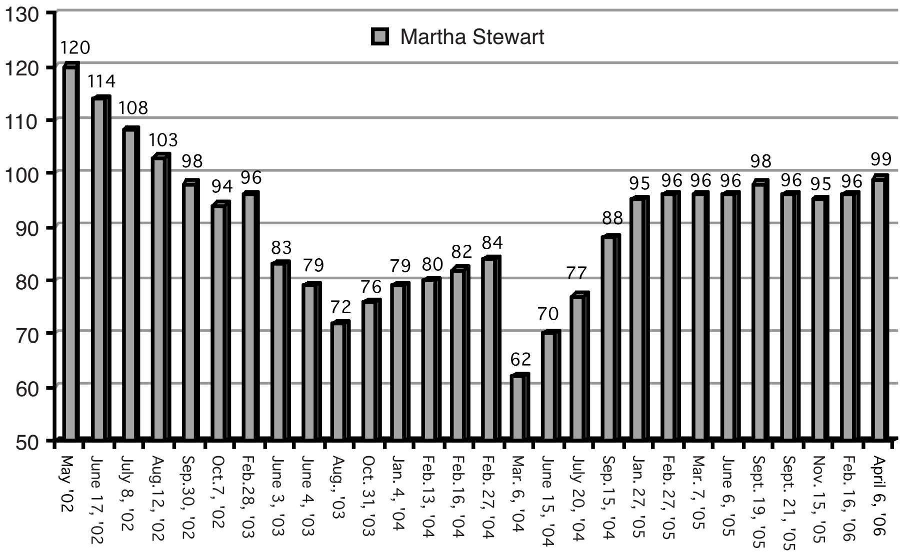


Coke		Pepsi
↑ 2.3%	Sales in Past 5 Years	7.5% ↑
↓ 2%	Quarterly Profits	13% ↑
↓ 13.5%	Stock Price Over Previous Year	5.6% ↑

Why does this haunt me? Because my company, Brand Keys, realized more than a decade ago that for companies the Holy Grail was going to be customer loyalty. More often than I care to recount—most recently at the headquarters of one of the largest telecommunications companies on earth—as I am describing our process, the client will interrupt to tell me: "We already have loyalty measures." Invariably (as was the case at the telecommunications company), the client is an intelligent and seasoned top-ranking executive. And, invariably, the intelligent and seasoned executive was dead wrong.

There's a simple reason why most top executives don't know what they're talking about when it comes to brand customer loyalty measures: their *research departments are misleading them.* Not intentionally, but misleading them nonetheless. And they have been for years. It's not that research directors are consciously lying—not exactly. The real problem is that the brand loyalty data cited by research directors does not have much to do with actual customer loyalty. That's

Figure 1.5
Tracking the Martha Stewart Brand



because *there is no way to measure customer loyalty using traditional methodologies.* Why can't these methodologies measure customer loyalty? Because traditional research uses the direct question-and-answer approach—direct answers to direct questions. And there is no way on earth—and probably not on any other planet—to determine through direct questioning, with a reasonable degree of statistical accuracy, whether customers are and will remain loyal to a brand.

In light of today's commoditization of virtually everything, the consumer decision process is driven more and more by *emotional* elements and values than by *rational* ones. We calculate that 70 percent of decision making is emotional. Rational elements do factor into product and service usage, so to accurately measure real loyalty (and expectations and engagement) you need to fuse the two. The traditional textbooks and approaches don't take that into account.

It's not a methodology issue. I have faith that all legitimate researchers ask their questions properly, collect data accurately, and crunch the numbers according to all the rules. The problem is that *the questions themselves are wrong.* Answers to direct questions are not predictive of future behavior. They do not correlate to any notable extent with real marketplace activity. In other words, the traditional research methodologies yield statistically reliable and valid answers, but to meaningless questions. If you doubt me, ask yourself this: If

AT&T had answers to questions that were really reflective of customers' values, predictive of profitable activities in the marketplace, and ultimately provided insights that helped to increase shareholder value, it would have stopped the bleeding long before it was taken over by SBC and Cingular and relegated to the "Brands That Used to Exist on Their Own" file. Instead, AT&T bled for two decades, a slow death indeed, without ever getting it. Makes you wonder about all the research that got fielded!

There are two reasons why top executives won't be hearing this from their research directors. First, most research directors don't know any other way to obtain loyalty data, nor do they pay attention to the lack of correlation between their data and the actual purchasing behavior of their customers. Their conscience is clear when they say that they have loyalty measures, because that's what they believe. As the psychologist Abraham Maslow said, "When your only tool is a hammer, the whole world starts to look like a nail."

The second reason is slightly more sinister. Imagine yourself in the position of a research director who does understand that the loyalty data he or she has been serving up for the past two decades is, in fact, incapable of doing the one thing you would expect a true loyalty measure to do: predict future customer behavior. Would you be willing to admit it? Or would you tend to hunker down and insist to the higher-ups that everything's just fine on the loyalty front? This dilemma is compounded by the fact that most high-ranking executives look only at research results, paying no attention to the methodologies that produced those results. Even the most hands-on executives generally keep their hands off the research department, the theory being that such secret rites are best left to the experts.

Well, guess what? The experts in your research and planning departments still rely on methodologies that were developed during the Eisenhower administration. What is the capability of these methodologies to track the direction and velocity of fast-changing customer values? It is somewhere between zero and nil. What about the capability to predict whether your customer will remain loyal or be peeled off by the competition? Don't ask.

What's the solution? You can start by calling your research people or research suppliers and grilling them about how well their current customer and brand loyalty numbers match up with bottom-line profits and stock prices. They'll protest. They'll howl. But, ultimately, they'll roll over and admit that they don't have the goods.

You'll also want to be very, very careful when researchers and marketers use the phrase *ethnographic research* as a surrogate for the research you really need to do to produce real loyalty metrics. Ethnographical research is usually a written description of a particular segment of consumers, typically based on some past purchase behavior, based on information collected through interviews, observations, and documents.

Ethnography literally means a portrait of a people, and when in an attempt to describe the observed behavior as it is related to brand choice, interpretation rears its ugly head. Researchers take their particular observational data and, to use their popular and comforting phrase, "paint a picture of what is actually going on." The problem here is that results inevitably differ from observer to observer. What is ultimately produced is open to multiple interpretations that are consistent with multiple—and inconsistent—personal points of view. There's the added disadvantage that this approach is a rearview technique. It's based on what folks did in the past and doesn't provide the diagnostics to explain how customers were originally engaged.

Be Informed Before You Go to Market (as Well as During and After)

Instead of measuring what went wrong after a campaign or new product launch, wouldn't a proactive approach make more sense—before you hit the market, blew through the budget, maybe even eroded the loyalty bond between the brand and its customers?

Measure and anticipate values and expectations so that you position your brands ahead of shifts in customer sentiment. Value shifts show up ahead of what the marketing world calls *trends.* Trend forecasting and measuring of customer values and expectations are both methods that seek predictive information, but they do not produce the same insights. Only methods that use the appropriate design, execution, and analysis can reliably focus on the future customer landscape. When you know what the market is anticipating, what it is willing to believe or stay loyal to, you have the ultimate competitive advantage. Combine this forward-reaching insight with knowledge of what the most effective ad drivers and media outlets are to resonate with targeted customer segments and you have a brand jackpot.

Volumes—indeed, entire shelves—of new or revised brand and marketing strategic advice are constantly coming out. But ask yourself: What specifically in the proliferation of the business press really equates to new insights or methods? Is the burgeoning collection coming any closer to answering pressing, contemporary questions on how to know your customer base, how to best engage them, and how to keep them loyal? Best practices and case studies are interesting, insightful, and entertaining. The inside story usually is.

But how often do we learn that what spurred a spell of brand success was as much a product of chance, situation, and unintended consequences as it was a deliberate, informed strategy? Such a phenomenon makes a good story or is fun to talk about, but it is hard to apply or replicate. We already know that the plan always changes. The question is in response to what?

The most impressive attribute any of us can ever deliver on is the one absent from most brand calculus. I'm talking about the *accountability*—that nagging, scary thought that just will not go away. More people in higher places are asking for it, requiring it as a prerequisite to any successful brand strategy, and talking about it without specifics. What is to be done? Sophisticated shareholders, CEOs, brand managers, and small business owners all want to know why something is working as much as why it is not. We need brand accountability.

Have you been looking backward at market and consumer history to devise a strategy for facing your competition in the future? Are you attempting to protect your turf from invasion without using predictive research to project how the marketplace might shift in the next year?

Following a customer loyalty approach helps to ingrain the habit of constant updating—regularly focusing on new values and new ideas; deliberately violating your own comfort zone, and refreshing and challenging your imagination. It also keeps you from being ambushed by the old the-way-it's-always-been-done stratagem.

Q & A

Measuring Loyalty

Roderick White, *Admap* magazine: *Is there really any way by which we can measure loyalty, except by actual in-market behavior?*

Robert Passikoff: Yes, by understanding the consumers' behavior at a deeper level than what product they just purchased. By "actual in-market behavior," I assume you mean "last/past purchase." If past purchase was a true measure of loyalty, then all the transaction data that brands capture would actually provide the caliber of strategic guidance needed to differentiate those brands. But it doesn't.

While measurement of actual transactions has become common, measuring loyalty via past-purchase behavior is not feasible for most categories because of a purchase-switching consideration period. This time lag is what makes the measurement of the direct effects of advertising, marketing, and promotional activities so difficult.

However, nontransactional behavior data is available that does not reflect the final action, but rather is related to the *potential for a purchase.* This behavioral data is not adversely affected by the lag factor associated with actual transactions because it is based on customer values, which do not change quickly.

New, measurable patterns will enable brands to grow customer loyalty in ways hardly imaginable just a short while ago—blends of psychological and higher-order statistical analyses that provide clear identification of the drivers of loyalty and profitability. Our particular model identifies four such loyalty *drivers,* which let us understand precisely how consumers view a given category and how they will compare brand offerings and buy. This is because well-designed drivers highly correlate with sales. The customer-brand analysis also identifies the expectations that consumers hold for each driver. And herein lies the key to true measurements of loyalty: A brand's ability to meet or exceed those expectations will identify an actual loyalty metric and potential for sales success.

Advertising and Loyalty: Actions and Effects

Theresa Howard, *USA Today:* *Does liking an ad on television, or interacting with an ad on the Web, necessarily engage consumers and build brand loyalty?*

Robert Passikoff: Not necessarily. Welcome to the twenty-first-century "media ecology." It all comes down to whether the interaction positively reinforces the consumer's perception of the brand. More TV and cable network options mean that the consumer has increased power to self-select the ad message to which he or she will be exposed. People now spend 10 percent of their time online, and advertisers seeking the Holy Grail are willing to try virtually anything to get attention—but that does not necessarily equate with loyalty or engagement.

"Let's face it, Fred. You and I are not exactly apostles of change."