

1 Power Shifts to the Connected Customers

*From Vertical, Exclusive, and Individual to
Horizontal, Inclusive, and Social*

Charlie Frost was a conspiracy theorist who strongly believed that 2012 would bring the end of civilization. A couple of geologists in 2009 found that Frost's belief might be true. They discovered that the earth's core was about to explode and bring catastrophe to the world. And so the world's leaders gathered to find a solution and decided to build giant ships resembling Noah's Ark to save select groups of the world's population. The survivors on the ships would be expected to start a new civilization.

This story is completely fictional and is taken from the movie *2012*. But many of the scenes in the movie symbolize the change we are experiencing today. The movie shows how the old standards of civilization—political, economic, socio-cultural, and religious standards—were being destroyed and being replaced by a more horizontal and inclusive set of social standards. It shows how leaders of the Western superpower countries were forced to drop their egos and collaborate. They even had to rely on China to build the giant ships. The ships also functioned as the symbols of a new world in which diverse people were connected with one another without any geographical and demographical boundaries.

Today, we are living in a whole new world. The power structure we have come to know is experiencing drastic changes. The internet, which brought connectivity and transparency to our lives, has been largely responsible for these power shifts.

We witness how exclusive powers surrender to the power of inclusivity. The G7, which is an exclusive group of powerful nations, could not solve the global financial crisis by themselves. They had to involve the G20 nations, which include China, India, and Indonesia. The economic power is now more inclusively dispersed. Large corporations also found it difficult to nurture innovation within their exclusive organizations. Companies such as Microsoft and Amazon eventually

needed to acquire smaller yet more innovative companies such as Skype and Zappos. Even millionaires Bill Gates and Mark Zuckerberg were aware of the need for economic inclusivity. They donated their wealth to help the poor through the Bill and Melinda Gates Foundation and the Startup:Education (now part of the Chan Zuckerberg Initiative) organizations, respectively.

We are also seeing how a vertical power structure has been diluted by a more horizontal force. Take, for example, how at the top of the world's most populous countries is the "United States of Facebook" with its population of 1.65 billion people. We also see how people now go to Twitter for breaking news from citizen journalists whereas in the past, a large TV network like CNN would be the go-to channel. Even YouTube has taken Hollywood by storm. A survey commissioned by *Variety* magazine revealed that for 13- to 18-year-olds, YouTube celebrities are more popular than Hollywood stars. The entertainment giant Sony collaborated with YouTube to show that horizontal forces could not be hindered by vertical ones. Sony's North Korea-themed comedy movie *The Interview* was commercially released first via YouTube in response to an alleged cyberattack from North Korea.

The power shift also influences people. Now, the power lies not with individuals but with social groups. Dictators were overthrown by people led by unknown leaders. Wall Street financiers were shaken by the Occupy Wall Street protest movement. Ebola fighters were chosen as *Time* magazine's 2014 Person of the Year rather than U.S. President Barack Obama or Indian Prime Minister Narendra Modi.

These shifts have radically changed our world. In a world where the horizontal, inclusive, and social forces trump the vertical, exclusive, and individual forces, customer communities have become ever more powerful. They are now more vocal. They are not afraid of big companies and big brands. They love to share stories, good and bad, about brands.

Random conversations about brands are now more credible than targeted advertising campaigns. Social circles have become the main source of influence, overtaking external marketing communications and even personal preference. Customers tend to follow the lead of their peers when deciding which brand to choose. It is as if customers were protecting themselves from false brand claims and campaign trickeries by using their social circles to build a fortress.

From Exclusive to Inclusive

Gone are the days when being exclusive was the goal. Inclusivity has become the new name of the game. At the macro level, the world is moving from a hegemony to a multilateral power structure. The superpowers, mainly the European Union and the United States, realize that some economic powers are shifting to the rest of the world, most notably to Asia, which has experienced steady growth in recent years. It is important to note that the Western superpowers will still be powerful; it's just that other nations are gaining more power over time. Economic powers are no longer concentrated but are more evenly distributed.

This economic shift is often attributed to the demographic profile of the emerging market populations: younger, more productive, and growing in terms of income level. It has created strong demand for products and services, which in turn drives economic growth. Recent data, however, suggest that the reason might not just be demographic.

From the innovation perspective, emerging markets are also heading in a better direction. Recent data collected by Robert Litan suggests that innovation in the United States has been declining. The number of start-ups accounted for only 8 percent of total companies in the country, whereas 30 years ago, it was nearly 15 percent. In Litan's data, the number of bankruptcies exceeded the number of start-ups.

The trajectory for Asia is quite the opposite. According to the Organization for Economic Cooperation and Development, China will overtake the European Union and the United States in innovation-related spending by 2019. In 2012, South Korea became the most advanced country for innovation, spending over 4 percent of its GDP on research and development.

The political influence of the Western world is also declining, following the drop in its economic influence. Military powers that used to provide effective influence are slowly being replaced by the soft approach of economic support and diplomacy. China, for example, maintains a strong influence in Africa due to its support for developing better governance and a more sustainable development.

Business itself is moving toward inclusivity. Technology enables both automation and miniaturization, which bring down product costs and allow companies to serve the new emerging markets. The disruptive innovations across business sectors have brought cheaper and simpler products to the poor, formerly considered a “non-market.” Products and services once considered exclusive are now available to mass markets all over the world. Examples include Tata Nano’s \$2,000 car and Aravind Eye Care System’s \$16 cataract surgery.

This also works the other way around. With reverse innovation, new products can be developed and introduced in the emerging markets before being sold elsewhere. The frugality and cost-consciousness shown in developing products are becoming the new sources of differentiation. A well-known example of this is GE’s Mac 400, a portable battery-operated electrocardiogram machine, which was designed to serve rural villagers in India. It was marketed elsewhere with portability as its core differentiation.

The transparency brought by the internet also enables entrepreneurs from emerging countries to draw inspiration from their counterparts in developed countries. They are building clone businesses marked by local twists in the execution. There are, for example,

Amazon-inspired Flipkart.com from India, Groupon-inspired Disdus from Indonesia, PayPal-inspired Alipay in China, and Uber-inspired Grab in Malaysia. Customers in these countries experience the services without having to wait for American companies to establish their footprints there.

The walls between industries are also blurring. The convergence and integration of two or more industries are trending. Industries have the choice to either compete or synergize to reach the same customers. In most cases, they synergize.

Many medical centers are now integrated with tourism facilities so that the costs of health care and holiday can be optimized. United Kingdom-based Patients Beyond Borders estimated serving around 11 million medical tourists in 2013. Popular medical treatments and destinations include dental work in Costa Rica, heart operations in Malaysia, and cosmetic surgery in Brazil.

In some emerging markets where prepaid cellular phone usage is immense, the telecommunications sector is collaborating with financial services to provide payment channels for goods and services. A well-known example is the M-Pesa, a mobile-based money transfer firm in Kenya.

Within an established industry, the sub-sectors will also be difficult to distinguish. In the financial-services industry, the lines that now separate banking, financing, insurance, fund management, and other industry sub-sectors will fade away, making it imperative for financial institutions to find new ways to differentiate themselves. Vertical integration in one industry will create business entities that engage in comprehensive roles from material supply to production to distribution, making it difficult to define in which business a company is active.

At a more micro level, humans are embracing social inclusivity. Being inclusive is not about being similar; it is about living

harmoniously despite differences. In the online world, social media has redefined the way people interact with one another, enabling people to build relationships without geographic and demographic barriers. The impact of social media does not stop there. It also facilitates global collaborations in innovation. Consider Wikipedia, which was built by a countless number of people, or InnoCentive, which broadcasts research and development challenges and asks for the best solutions. In fact, all social media that take a crowd-sourcing approach are good examples of social inclusivity. Social media drives social inclusivity and gives people the sense of belonging to their communities.

Social inclusivity is happening not only online but offline as well. The concept of *inclusive cities*—cities that welcome the diversity of their inhabitants—are often dubbed as a good model for sustainable cities. Similar to the concept of social media, the concept of inclusive cities argues that when cities welcome minorities who are often left behind and give them a sense of acceptance, that will only benefit the cities. Social inclusivity can also appear in the form of fair trade, employment diversity, and empowerment of women. These practices embrace human differences across gender, race, and economic status. Brands like the Body Shop are building a strong commitment to social inclusivity with values such as “support community trade” and programs such as “stop violence in the home.”

From Vertical to Horizontal

Globalization creates a level playing field. The competitiveness of companies will no longer be determined by their size, country of origin, or past advantage. Smaller, younger, and locally based companies will have a chance to compete against bigger, older, and global companies. Eventually, there will be no company that overly dominates the others. Instead, a company can be more competitive if it can connect

with communities of customers and partners for co-creation and with competitors for co-opetition.

The flow of innovation that was once vertical (from companies to the market) has become horizontal. In the past, companies believed that innovation should come from within; thus, they built a strong research and development infrastructure. Eventually, they realized that the rate of internal innovation was never fast enough for them to be competitive in the ever-changing market. Procter & Gamble (P&G), for example, learned this early in 2000, when its sales from new products flattened. It later transformed its research-and-develop model into a connect-and-develop model. The more horizontal model relies on outside sources for ideas that in turn will be commercialized using internal P&G capabilities. Its rival Unilever has been moving in the same direction by capitalizing on its vast external innovation ecosystem. Today, innovation is horizontal; the market supplies the ideas, and companies commercialize the ideas.

Similarly, the concept of competition is changing from vertical to horizontal. Technology is the main cause. Chris Anderson's long tail hypothesis could not be truer today. The market is shifting away from high-volume mainstream brands into low-volume niche ones. With the internet, physical logistical constraints no longer exist for smaller companies and brands.

This inclusivity now enables companies to enter industries that they would not otherwise have entered in the past. This provides opportunities for companies to grow but poses significant competitive threats. Because distinctions between industries are blurring, it will be highly challenging for companies to keep track of their competitors. Competitors in the future will come from the same industry as well as from other relevant and connected industries. A few years ago, taxi companies and hotel chains would not imagine competing for passengers and guests with technology start-ups such as Uber and Airbnb, which provide private transportation and lodging. To spot latent

competitors, companies should start with the customers' objectives and consider potential alternatives that customers might accept to achieve their objectives.

Companies should also track competitors from outside their home markets. These competitors are not necessarily multinational corporations. In recent years, we have observed the rise of great companies from emerging markets such as Xiaomi and Oppo. These companies innovate out of necessity and were created in challenging home markets. They match the quality of major brands but with significantly lower prices. This is made possible by the online go-to-market option. Highly innovative and resilient, these companies have all the necessary ingredients to expand their markets globally.

The concept of customer trust is no longer vertical; it is now horizontal. Customers in the past were easily influenced by marketing campaigns. They also sought for and listened to authority and expertise. But recent research across industries show that most customers believe more in the f-factor (friends, families, Facebook fans, Twitter followers) than in marketing communications. Most ask strangers on social media for advice and trust them more than they do advertising and expert opinions. In recent years, the trend has spurred the growth of communal rating systems such as TripAdvisor and Yelp.

In such a context, a brand should no longer view customers as mere targets. In the past, it was common for companies to broadcast their message through various advertisement media. Some companies even invented a not-so-authentic differentiation to be able to stand out from the crowd and support their brand image. Consequently, the brand is often treated as outer-shell packaging, which allows for a fake representation of its true value. This approach will no longer be effective because with the help of their communities, customers guard themselves against bad brands that target them.

A relationship between brands and customers should no longer be vertical but instead it should be horizontal. Customers should be

considered peers and friends of the brand. The brand should reveal its authentic character and be honest of its true value. Only then will the brand be trustworthy.

From Individual to Social

When making purchase decisions, customers have typically been driven by individual preference as well as by a desire for social conformity. The level of importance for each of these two factors varies from one person to another. It also varies across industries and categories.

Given the connectivity we live in today, the weight of social conformity is increasing across the board. Customers care more and more about the opinions of others. They also share their opinions and compile massive pools of reviews. Together, customers paint their own picture of companies and brands, which is often very different from the image that companies and brands intend to project. The internet, especially social media, has facilitated this major shift by providing the platform and tools.

This trend will continue. Virtually everyone on earth will be connected very soon. It turns out that the solution for the internet laggards was not cheap laptops but rather cheap smartphones. In fact, it is projected by the UMTS Forum that mobile data traffic will jump by a factor of 33 from 2010 to 2020. With such vast connectivity, market behavior will become significantly different. For example, in many countries in-store research using mobile phones to compare prices and check reviews is trending. Mobile connectivity allows customers to access the wisdom of the crowd and to make better purchase decisions.

In such an environment, customers conform more to social opinions. In fact, most personal purchase decisions will essentially be social decisions. Customers communicate with one another and converse about brands and companies. From a marketing communications

point of view, customers are no longer passive targets but are becoming active media of communications. A beauty products brand—Sephora—has been exploring communities as a new form of media assets. Sephora has built a social media community in which all community-generated content is incorporated into the Beauty Talk platform. It has become a trusted medium for customers who are trying to consult with other members of the community.

Embracing this trend is not easy. Companies used to have control over marketing communications, and they used to handle customer complaints individually. With community-generated content, companies have no control over the conversation. Censoring content will weaken credibility. They must also be prepared for massive social backlash when something goes wrong.

That being said, companies and brands that have strong reputations and honest claims about their products should have nothing to worry about. But those who make false claims and have poor products will not survive. It is practically impossible to hide flaws or isolate customer complaints in a transparent, digital world.

Summary: Horizontal, Inclusive, and Social

Marketers need to embrace the shift to a more horizontal, inclusive, and social business landscape. The market is becoming more inclusive. Social media eliminate geographic and demographic barriers, enabling people to connect and communicate and companies to innovate through collaboration. Customers are becoming more horizontally oriented. They are becoming increasingly wary of marketing communications from brands and are relying instead on the f-factor (friends, families, fans, and followers). Finally, the customer buying process is becoming more social than it has been previously. Customers are paying more attention to their social circle in making decisions. They seek advice and reviews, both online and offline.

Reflection Questions

- What are the trends in your respective industry that demonstrate the shifts toward a more horizontal, inclusive, and social business landscape?
- What are your plans to embrace these shifts in the marketplace?

