

Tracking the Elusive Consumer

by John Jullens and Gregor Harter

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ing problem: Are there enough agents available to handle the chat? Increasing the number of agents means increasing the number of invitations to chat, which in turn means approaching colder leads who are less likely to end up making a purchase. The colder the lead, the lower the potential profitability. On a more strategic level, the software must determine the number of agents that will maximize profitability. Further statistical modeling is needed to select the right agent for each consumer, depending on such criteria as the best-performing agent for the product category that individual is looking at. Even a great used-car salesman isn't likely to make much money working at Tiffany.

Now, it's time to chat. Here the goal is simple — to translate the art of selling into a science. Once that Sears clerk approaches a prospect, he has to use his experience to make dozens of instantaneous judgments, based on any number of visual and linguistic cues: Is the customer detail-oriented, or does he prefer a softer touch? Am I pushing too hard, and is he beginning to resist? The customer appears to be losing interest — is now the time to begin offering discounts? The 24/7 chat format, of course, does not allow for all the nuances any decent salesperson picks up in a face-to-face conversation. It does, however, perform analyses of thousands of chat transcripts, through text mining and data mining, to perfect the techniques that human customer service representatives use to close the sale.

Text mining, for example, can offer insight into how a salesperson should talk to consumers to achieve the greatest degree of success. Some of these insights are based on exten-

sive research in neurolinguistics, which argues that people can be classified as aural, visual, or kinesthetic, depending on how they perceive the world. That classification, in turn, can provide hints of the most effective communication strategies for convincing them to buy an item. Aural consumers listen for product details, so an effective sales approach might be, "Let me tell you how many megapixels this camera has." Visual consumers want information about the product's appearance. Thus, the salesperson might say, "This camera comes in three exciting colors and will fit into your shirt pocket." And kinesthetic consumers respond to pitches that tap emotions, such as, "You'll love how this camera balances in your hand, and it's perfect for taking pictures of your granddaughter's nursery school graduation."

Adobe, the software giant, rolled out SalesNext in July 2007 with excellent results. Since then, the company has seen a 15 percent jump in conversion among consumers who chat, says Dawn Monet, senior manager of Adobe's worldwide call centers. And, she notes, the satisfaction of consumers who use chat is higher than that of both consumers who shop online with-

out chat and those who shop by phone. "SalesNext really enables the 'magic moment,' when we can be there with the customer when and where they have a question. The customer doesn't have to search for answers or wait in a call queue," says Monet. "This is the beginning of how we will communicate with customers in the future. It combines the human element with the technology in a new, powerful way."

A well-run sales chat program driven by predictive mathematical models can greatly boost a Web site's profits and consumer loyalty, while reducing costly returns. The solution, however, doesn't work right out of the box. Like that crack salesperson on the floor at Sears, who learns something from every encounter with a consumer, chat can get smarter day by day. The true power of sales chat, when coupled with predictive and text-mining technologies, lies in the ability to learn what works and what doesn't, and to constantly refine the system's filtering and selling techniques.

Edward H. Baker

(baker@edwardhbaker.com), former editor of *CIO Insight* magazine, is a contributing editor at *strategy+business*.

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Consumer

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What does the consumer want? Why do individuals prefer one product or service over another? And how, precisely, do most consumers make

their purchasing decisions?

These questions, which have baffled marketers since the first mass-produced product was placed on a shelf for sale, ultimately determine the success or failure of virtually any business venture. And

much to the chagrin of many corporate executives, consumer attitudes today are, if anything, harder to read than ever as people freely rummage through an abundance of choices for everything from ordering a cup of coffee to buying a mobile phone to choosing a retirement plan.

But there is help on the way for marketers. Recent work on the art and science of consumer behavior has refined, updated, and strengthened an analytical tool known as consumer choice modeling, initially developed in the 1960s by Daniel McFadden, a winner of the 2000 Nobel Prize in economics. Simply put, this model examines the personal reasons for individual choices and provides techniques researchers can use to measure and predict those choices. By exploring why individuals make specific trade-offs among various product options, consumer choice modeling can determine the features that people in different economic and demographic strata are looking for and how much they are willing to pay.

Originally, this technique suffered from a lack of sophistication. A typical implementation involved asking respondents to react to lengthy paper-and-pencil surveys offering a series of preconfigured and static product or service possibilities. Although some insight about consumer preferences was typically evinced, it was often shallow, limited by researchers' inability to dynamically change the direction of the questioning on the basis of the responses. However, advances in experimental designs and information technology — including broadband Internet access, digital imaging, video, and faster computing speeds — now allow researchers to better approximate the shopping

experience when asking questions by adjusting product choices in reaction to a person's answers. By analyzing the responses from a representative sample of consumers (or potential future customers), researchers can produce econometric models that depict the relative weighting of specific product features and price points.

Early in 2007, Booz & Company applied consumer choice modeling to identify and measure the drivers of demand for mobile

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Consumer choice modeling can determine what people want and how much they will pay.

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In all, Booz & Company surveyed more than 1,800 consumers in the United States by simulating the actual mobile phone purchasing process and asking people to compare their existing package — device and mobile service contract — with alternatives. For example, owners of low-cost Sharp handsets running on pay-as-you-go carriers such as Virgin Mobile or Boost Mobile were offered a US\$100-plus Samsung phone with Nextel service and a \$250-plus LG phone with Verizon's network. Respondents were asked, "If these two packages were your only alternatives, which one would you choose: Samsung/Nextel, LG/Verizon, or neither?" and "If Sam-

no matter how much the handset price is lowered. Such reluctance to switch is unusually high and shows that the wireless device and service industry has largely failed to provide attractive new products with features that consumers attach real value to — at least since Research in Motion Ltd., the maker of the BlackBerry, combined e-mail and voice in one machine in the 1990s.

Of all phone users, owners of low-end handsets made by the Nokia Corporation value their phone package the least. Consequently, these consumers are the most willing to switch to another carrier and handset — an opportunity for competitors to attack Nokia's base by, for example, producing a low-cost package with a function or two that outpaces the relatively plain Nokia product.

The consumer choice model also revealed that owners of handsets made by Sony Ericsson Mobile Communications AB, which tend to be highly designed, full-featured

products, care much more than Nokia users about functionality, usage range, and purchase location (they prefer to buy their packages at stores that offer personal attention, rather than at Costco or Circuit City, for example). And although these customers, too, are price conscious, they're willing to pay a premium to have their preferences met. A service provider could use these findings to target Sony Ericsson owners with a slightly less expensive offering that in all other ways matches their current package.

Consumer choice modeling also has the ability to predict the impact of future products and services on the market. To illustrate this, Booz & Company used the data collected from the mobile industry surveys to simulate the characteristics of "the ideal high-end

would have difficulty reaching a significant portion of the high-end market. But the same research suggested that performance would improve quickly as soon as Apple cut prices. In fact, that is precisely what happened: In September 2007, Apple discounted the phone by \$200, and sales rose well over 1,000 percent in the succeeding quarter from sales in the prior three-month period. And in June 2008, CEO Steve Jobs announced a much faster eight-gigabyte iPhone — using AT&T's state-of-the-art 3G network — for only \$199, a move that further aligned Apple's pricing with that of its peers and that will almost certainly improve the product's market share.

A perfect research topic for consumer choice modeling would be hybrid-electric vehicles, which

hybrids have also risen because of government tax incentives.

But hybrids are not the only possible response to environmental concerns and high gas prices. Advances in diesel and biofuel technology suggest that there may be more palatable choices to power the traditional automobile engine in the near future. Meanwhile, all-electric and hydrogen-powered vehicles are also in development and show some early promise. In short, the only trend certain in the auto industry these days is uncertainty. A great deal will depend on future environmental and tax policies, but at present, auto companies can focus on one factor they can understand and address: consumer demand. What do consumers really want, as opposed to what they say they want?

Each consumer makes his or her car purchase decision by simultaneously weighing diverse criteria, including brand, cost, performance, fuel economy, comfort, styling, service, environmental friendliness, and more. But if you asked individuals how they weigh these criteria — and many a carmaker has tried — they would be hard-pressed to articulate their decision-making process. Consumers' choices in today's complex marketplace are beyond the ability of even the consumers themselves to describe.

A consumer choice modeling project focused on hybrids would offer people different vehicle options and allow them to think like car buyers as they compared their typical car preferences (in other words, past purchases) with various hybrid possibilities. This study would focus on the reasons individuals make specific trade-offs among various options, such as fuel usage, CO₂ emissions, battery range, per-

For automakers, the only trend certain is uncertainty; the one factor they can focus on is consumer demand.

phone" as consumers viewed it. From this, the survey gleaned that three primary factors — feature, design, and brand — are of paramount value to consumers considering a higher-priced model. These factors, of course, were exactly what Apple focused on in developing its blockbuster iPhone, launched in July 2007.

Significantly, as the model predicted, Apple stumbled when it came to price, which the survey showed matters at all levels of cell phone purchases. At a price point of \$599 for an eight-gigabyte phone, the research forecasted that Apple

have tripled in sales since 2004, though on an admittedly small base. As the first realistic alternative car that addressed environmental and fuel cost concerns, the hybrid was a novel idea that intrigued early adopters. Today, these cars are attractive to consumers put off by higher gasoline prices because they offer improved fuel economy (particularly to urban and suburban drivers) and, since they use the electrical power of the vehicle's cordless battery when they can, because they do not require a new recharging infrastructure. These obvious benefits notwithstanding, sales of

formance, vehicle design, and price. With this data, auto companies could then deduce whether various consumer segments really want an environmentally responsible car, what features they are looking for, and, most important, how much they would be willing to pay. The efficacy of consumer choice modeling is that it allows manufacturers to isolate and identify customer preferences among an array of realistic product offerings without having to ask the open-ended question, “What do you want?”

We believe that consumer choice modeling is ideally suited for analysis of the most complex consumer decision processes and that it yields valuable insights for demand-driven strategy development by providing customer value segmentation maps, measuring market share impact of new product-service combinations, and assessing overall brand equity. Perhaps most important, choice modeling can reveal salient differences between managers’

beliefs about customers’ needs and preferences and customers’ actual needs and preferences. For managers seeking reliable feedback on how customers view their products and services, consumer choice modeling provides a rigorous way to turn customer-driven feedback into profitable and sustainable tactics for retaining or capturing market share.

John Jullens

(john.jullens@booz.com) is a principal with Booz & Company in Cleveland. He specializes in demand-side transformation issues, including revenue growth strategies, brand management, customer retention, and retail channel effectiveness.

Gregor Harter

(gregor.harter@booz.com) is a partner with Booz & Company based in Munich. He focuses on the telecommunications and technology sector, developing market strategies and improving operational performance.

cause they are completely absorbed, caught up in the activity at hand. In organizations, flow typically takes place when the challenges of a job fit naturally with the capabilities that people bring to it.

Organizations, like individuals, need to be in flow to operate smoothly. An organization achieves this state of equilibrium through its management layers. In other words, an organization can approach the flow zone when the positions in its hierarchy have clear, accountable tasks that are aligned to its mission and that match the skills and reach of the people at each level. Or as University of Auckland Business School lecturer Judith McMorland puts it, the key diagnostic can be summed up in two simple questions: “Are you big enough for your job?” and “Is your job big enough for you?” If the answer to both is “yes” throughout the organization, then it is in flow.

A critical component of achieving flow is accountability. If a job has its own discrete decision-making responsibilities, different from those in positions above and below, then the individual in that job feels accountable. He or she has a clear understanding of who the boss is, what the boss expects, why the boss needs particular results, when those deliverables are needed, how those deliverables fit with the organization’s goals, and how to accomplish them. The individual is then free to “own” the job, to organize it accordingly, to deploy the resources at hand, and to enter the flow zone.

Most of us intuitively understand this, and we gravitate toward positions in which we feel that our accountability is clear and the job fits our talents. But very few organi-

Hierarchies for Flow and Profit

by **Brian Dive**

In mid-2007 I ran a Webcast for the management research organization The Conference Board on the subject of organizational design and leadership. We polled the executives of about 40 companies, asking about their layers of management. Upward of 72 percent said they felt the business had too many layers. Worse yet, they did not know what the right number should be.

This is typical, in my experi-

ence, of businesspeople. They are mostly in the dark about how their organizational design — the “lines and boxes” signifying reporting relationships in a hierarchy — should be arranged. But most businesspeople can tell when it’s working and when it’s not, because they know when they’re in the “flow zone.” A number of researchers, most prominently the psychologist Mihaly Csikszentmihalyi, have identified the value of flow, the state in which people feel happy and fulfilled be-

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