Insights Into Customer Insights

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Excellence in customer relationship management begins with deep customer understanding. But customer understanding goes well beyond the traditional CRM notion of analyzing customer responses and creating targeted offers for specific customer segments. While target marketing can lead to incremental improvements in marketing effectiveness, it seldom results in marketing breakthroughs. True breakthroughs often come from customers who aren't in your database with offerings that customers cannot even visualize. They are often based on powerful customer insights.

Consider Apple and its phenomenally successful personal digital music player – the iPod. When Apple launched the iPod in October 2001, it was not the first entrant into the digital music player business. In fact, digital music players had been around since 1998. But Apple was the first to get it right by understanding the crucial design equation for a portable digital music player – the largest number of songs divided by the smallest physical size. Apple's research uncovered a key insight – people want to take all their music with them, but they want personal music players to be unobtrusive. This insight led to two key design goals – make it as small as a deck of playing cards and build it to hold 1,000 songs. Add a dash of Apple's design and usability magic to this insight, and you have a recipe for a blockbuster. By April 2004, Apple had sold more than 3 million iPods, creating a billion-dollar business for Apple. Apple commands a 40 percent market share in digital music players and a whopping 70 percent share in the legal digital music download market.

Apple's success was grounded in the insight about how consumers wanted to consume digital music. Indeed, entire companies have been built on a single customer insight. Starbucks was founded on the insight that coffee is not a product sold in a coffee shop, but rather an experience marketed in a third place between home and work where people can gather and relax. Home Depot's early success was based on the insight that do-it-yourselfers were an underserved segment, as most hardware stores focused on contractors and professionals. Sony's Walkman was successful because it redefined the relationship between personal space and private space. And Virgin's mobile business is founded on the insight that teenagers and young adults don't want to deal with their parent's wireless company and they don't like to be tied down to monthly bills or long-term contracts.

While customer insights are valuable, they are hard to come by. In fact, they are hard to even define. So what exactly is a customer insight? Where do insights come from? Why does conventional market research rarely produce customer insights? How can companies improve their customer insight capability? Where should they look, and what tools should they use in their search for customer insights? In the answers to these questions may lie the keys to the growth and success of your company.

The Nature Of Customer Insights

The dictionary defines insight as the "act of intuitively seeing the inner nature of things." More precisely, I define a customer insight as a fresh and not-yet-obvious understanding of customers that can become the basis for competitive advantage. This definition suggests several characteristics of a customer insight:

It is a not-yet-obvious discovery. Wisdom is sometimes defined as a "penetrating view of the obvious." Insights seem eminently logical in hindsight. But they are not obvious before they are discovered. In fact, they are often not obvious to most people even after they are discovered. Apple's iPod was criticized as being overpriced in the highly competitive MP3 player market. Southwest Airlines and Wal-Mart defied conventional logic by refusing to locate their operations in the most highly trafficked neighborhoods and airports. So when you are

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looking for insights, you should not assume that the obvious is true. And you should also not assume that the truth is obvious.

It is a unique and fresh perspective. If you want to have different conversations, you must have different voices. And if you want to see different things, you must look through different eyes and with different lenses. Insights often emerge from looking at a problem differently and by being eclectic in research methods. The Mexican cement company Cemex discovered that ready-mix cement could be delivered within a guaranteed 20-minute time window by emulating the emergency dispatch system used by the Houston 911 dispatch center. The design firm IDEO uses a 52-card methods deck to remind itself that it should look at a problem in a variety of ways to uncover an insight. To gain customer insights, we must understand that we are prisoners of what we know and what we believe. And we must broaden our horizons by using diverse tools and listening to diverse voices.

It rarely emerges from quantitative research. A common theme in customer insights is that they rarely result from fancy market research and high-powered number-crunching. In fact, quantitative market research rarely yields customer and market insights. As Steve Bennett,

a known idea or hypothesis in order to see if it is true. Deductive reasoning is the dominant logic behind quantitative or "positivist" customer research, where we seek to accept or reject a proposed set of hypotheses, or to get specific answers to well-defined questions. The quantitative research paradigm uses the scientific method of experimental design and hypothesis testing, and relies on structured customer interviews and sophisticated statistical analysis.

The second approach to customer understanding is inductive reasoning, where we rely on observation to formulate an idea or hypothesis. Inductive reasoning does not begin with a question or hypothesis. Rather, it begins with observations that may lead to a hypothesis. Qualitative or "interpretative" customer research draws on inductive reasoning. In the qualitative research paradigm, we rely on thick observation of customer behavior in a quest for deeper understanding and insight.

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CEO of Intuit, observed in a recent speech at Northwestern University's Kellogg School of Management, "I have not seen a single insight come out of quantitative market research." Yet companies continue to spend millions of dollars on market research, using rigorous surveys and sophisticated quantitative techniques like conjoint analysis, cluster analysis, and factor analysis. While market research produces oceans of data and information, it rarely produces much customer insight.

It is often rooted in an observed anomaly. In uncovering insights, it is important to heed the saying: "Always ask why." Often, an anomaly is a valuable starting point for uncovering insights, because it forces you to question and potentially overturn the orthodoxies in a market. When Apple launched the iMac, it asked, "Why should all personal computers be beige?" Enterprise Rent-A-Car questioned why all cars are rented at airports, when most people don't live near airports and people don't rent cars only when they fly. As companies race to benchmark and copy each others' strategies, they often end up looking just like each other. This strategy convergence tends to reinforce industry traditions that make perfect sense to insiders, but create interesting opportunities for outsiders who find that the status quo in the industry is at odds with what should be, or what could be.

The Two Ways Of Knowing
To improve our ability to understand customers, we need to appreciate that there are two very different approaches for customer understanding. The first approach is deductive reasoning, where we test

that is not informed by insightful qualitative research may end up being precise but lacking in customer insight. On the other hand, customer insights that are not validated with quantitative research may end up being interesting but not representative of mainstream customers. As Albert Einstein observed, "Science without religion is blind, and religion without science is lame." Qualitative research provides the eyes, but quantitative research provides the legs of validation. You need both if you want to walk out of the forest of ignorance.

From Market Research To Customer Insights
In most companies, the market research organization is charged with the responsibility for developing customer understanding. However, most market research departments aren't fulfilling this mission because they fail to appreciate that they exist not to do market research, but to generate customer and market insights. The value of the market research department is not determined by the number of studies that it does, but on the business value of the insights that it produces and the decisions that it influences. In fact, I believe that market research departments should be called the "customer insights" function, to emphasize the true mission of market research. This is what the consumer products giant Unilever has done. Its customer and market insights organization defines its mission as "getting better at understanding our consumers and meeting their needs." At Eli Lilly, the vision for the customer insights team is to "deliver insights that drive decisions," and not confirmation of what Eli Lilly knows or

hypothesizes. These examples reinforce a basic fact – market research is a means to an end – generating customer and market insight. Research as an end in itself has no meaning and no value.

Making Lightning Strike Twice

Customer insights are like a lightning bolt – illuminating, but rare. While you cannot make lightning strike, you can make it more likely that you are at the right place and the right time where lightning is likely to strike. To increase the probability of generating customer insights, you must talk to the right people in the right places using the right set of tools. Here are some specific tips for improving the customer insight capabilities of your organization:

Involve the whole firm. Customer insight is too important to be left to the market research department or the marketing organization. Customer insights can come from any functional area of the organization, including marketing, engineering, sales, customer support, purchasing, or operations. They can originate from the top management or from a front-line employee. And they can be sourced from inside the firm or from external partners. The marketing organization needs to connect customers with all functional areas in the company, to capture customer insights wherever they may emerge, and to disseminate insights to where they can be used. Marketing must evolve beyond its traditional role as a "middleman" conveying the voice of the customer to the organization. Instead, it must become the orchestrator of all customer-facing interactions between the firm and its customers.

Expand your repertoire. Eclecticism in tools is essential for a deeper understanding of customers. Traditional research techniques like focus groups, surveys, and in-depth interviews are better at understanding needs that customers can articulate. To gain a better understanding of unarticulated needs, the research tool kit needs to be augmented with observational techniques like contextual inquiry, customer experience mapping, human factors research, and ethnography. These techniques rely on direct observation and interpretation to generate insights.

Understand non-customers. Most efforts at customer understanding are focused on current customers and currently served markets. To increase the chances of creating breakthrough insights, you need to escape the "tyranny of the served market" by looking beyond the customers in your customer base and the products in your portfolio. To expand the peripheral vision, you should try to understand the customers who don't do business with you, and non-users who don't do

business with anybody in the category. As Clayton Christensen observes in his book, *The Innovator's Solution*, disruptive innovations often compete against category non-consumption. Southwest Airlines did not compete with other airlines. It competed against railroads and cars, taking people out of cars and putting them into planes.

Create new observation posts. Customer insights often emerge from strange places, so you must cast your net wide in fishing for insights. Leading customer insight companies such as Intuit, Procter & Gamble, and eBay have created a diverse array of channels for generating customer insights. Some examples:

- Intuit designed a "follow me home" program where researchers spend time watching consumers manage personal finances in their homes;
- Hallmark has the "Hallmark Idea Exchange," a 1,000-member virtual community that the company mines for ideas and feedback on personal expression;
- Mazda used a Web-based market intelligence tool called BrandPulse, which monitors all conversations and discussions related to the Mazda RX-7 to understand what customers wanted in its new RX-8 sports car; and
- Herman-Miller relies on a design concept team consisting of external domain experts and industry visionaries to generate breakthrough design concepts.

Become proactive. Market research organizations should not wait for product managers to come to them for research projects. Projects that are originated by product managers tend to focus on seeking answers to known questions, because they relate to a specific product or marketing problem. Market research organizations should complement these projects with proactive, open-ended projects that seek to develop a deeper understanding of customer problems and customer needs.

In today's hyper-competitive world, the race for competitive advantage is really a race for customer and market insights. Winning the customer insight race demands that you understand the true nature of customer insights, embrace both the ways of knowing, reinvent the market research function as a customer and market insights function, and improve your peripheral vision. While there is no guarantee that an apple falling on your head will lead to the same level of insight as it did for Isaac Newton, you can at least make sure you are sitting under a tree that is full of ripe apples, where it is more likely that an apple will fall on your head. ■