June 6, 2011

Competitive Strategy In The Age Of The Customer

by Josh Bernoff
for CMO & Marketing Leadership Professionals

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Competitive Strategy In The Age Of The Customer

Only Customer-Obsessed Companies Can Survive Disruption

by Josh Bernoff
with David M. Cooperstein, Michelle de Lussanet, and Corinne J. Madigan

EXECUTIVE SUMMARY

Empowered customers are disrupting every industry; competitive barriers like manufacturing strength, distribution power, and information mastery can't save you. In this age of the customer, the only sustainable competitive advantage is knowledge of and engagement with customers. The successful companies will be customer-obsessed, like Best Buy, IBM, and Amazon.com. Executives in customer-obsessed companies must pull budget dollars from areas that traditionally created dominance — brand advertising, distribution lockup, mergers for scale, and supplier relationships — and invest in four priority areas: 1) real-time customer intelligence; 2) customer experience and customer service; 3) sales channels that deliver customer intelligence; and 4) useful content and interactive marketing. Those that master the customer data flow and improve frontline customer staff will have the edge.

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NOTES & RESOURCES

Forrester interviewed 15 vendor and user companies and thought leaders, including Bain, Bank of America, Comcast, imc2, and MTV Networks.

Related Research Documents

"Preparing For The Intelligent Enterprise: A Blueprint For Market Insights Professionals"
April 29, 2011

"What People Really Need"
February 4, 2010

DISRUPTION IS COMING — IS YOUR COMPANY READY?

It's January 1, 2014, and your company is headed for a crisis. Could this be you?

- **You're a consumer-packaged-goods company with a dominant position on store shelves.** But consumers, crazed over the latest group-buying startup, have banded together into local collectives to buy everything from toothpaste to potato chips at margin-busting prices, based on ratings from tastemakers they trust. As shopping habits change, your investments in channel management will be rendered useless.

- **You're a TV network.** You just learned that Apple is going to start making TVs with streaming built in and has lined up content relationships with the producers that supply programs on your network. Infuriated by the high cost and poor service of cable operators, consumers will dump them for Apple's elegant TV solution by the millions. There goes the value of your carefully constructed and lucrative cable and satellite deals.

- **You're a financial services company.** Because of continued low rates of return, your investors are skittish. Now they've latched onto a startup that allows people to lend to each other, backed by an insurance company that makes the person-to-person lending model secure and cheap to run. People are stampeding to lend to each other, generating returns that are both more secure and more lucrative than mutual funds.

- **You're an airline.** Since oil reached $200 a barrel, you've had to raise your prices by 25% just to stay profitable. But businesspeople and consumers, fed up with poor airline service and high prices, have begun to embrace Cisco Systems' TelePresence, connecting to each other on their TVs and PCs. Cisco made it irresistible by adding fun features that connect your conversation with social networks for extended conversations.

Customer Power Is Behind All Of This Disruption

You may find the scenarios that we've described outlandish. Even if none of them comes to pass, you can count on technology-fueled, customer-led disruption arriving unexpectedly on your doorstep (see Figure 1). Your customers want things faster, better, cheaper, and with a higher degree of service; technology makes it possible for them to get what they want. Consumers embrace the power of social technology — US consumers make 500 billion impressions on one another about products and services every year.[1] And 5.3 billion people — 76% of the world's population — are connected to each other and information through mobile devices.[2]

The result of all of this people power is disruption. A tweeter in Pakistan scooped the president of the US in announcing the attack on Osama bin Laden's compound. Corporations can't easily defend themselves — technology-driven shifts in consumer preferences killed Circuit City and Tower Records and bankrupted Borders and Blockbuster. All succumbed because their strengths — their valued business models, distribution, and supplier relationships — weren't sufficient to keep them competitive in the face of rapidly shifting customer expectations.[3] You're next.

Figure 1 Technology Fuels Customer Disruption In Every Industry

Industry	Historic sources of lock-in	Sources of disruption	Examples of disruption
Media	Distribution on newsstands and TV; talent contracts	Digital media creates new cost pressures and unclear benefit; free media competes with paid content; distribution is limitless	Google News, iTunes, Netflix, YouTube, Twitter
Consumer packaged goods	Mass advertising, shelf space, shopper behavior	eCommerce and mobile distribution, pricing, new forms of awareness and advocacy	Private-label brands, Amazon.com, drugstore.com, shopkick, FreshDirect, Groupon
Retail	Location, store experience, trade advertising	eCommerce, auctions, group buying	Amazon, eBay, Groupon
Airlines	Gate real estate; IT infrastructure; planes and other large capital investments	Easier price comparisons, customers sharing stories, substitution from telepresence	Hipmunk and priceline.com; customer "Bill of Rights"; telepresence
Healthcare	Insurance companies, doctor groups, and hospitals lock in relationships	Consumers share doctor ratings online; new regulatory environment; cost of service delivery	Angie's List; boutique practices that cherry-pick more affluent patients
Financial services	Local branch networks to connect with customers; reputation; scale	Low-cost electronic-based substitutes for most transactions	E-Trade, ING, mint.com
B2B services	Consultative sales teams connect personally with buyers	Services globalizing, eServices emerging	Infosys and other outsourcers; Elance connects individual service suppliers with buyers

59159 Source: Forrester Research, Inc.

WELCOME TO THE AGE OF THE CUSTOMER

We're about to enter a new era that Forrester calls the age of the customer. While companies have always, to a greater or lesser extent, called themselves "customer-centric," this is different. This is not about "customer-centric" thinking or "the customer is always right" — instead, the new power of customers means that a focus on the customer now matters more than any other strategic imperative. Looking at the frameworks companies have competed within over the past hundred years, you can see how the age of the customer is different (see Figure 2):

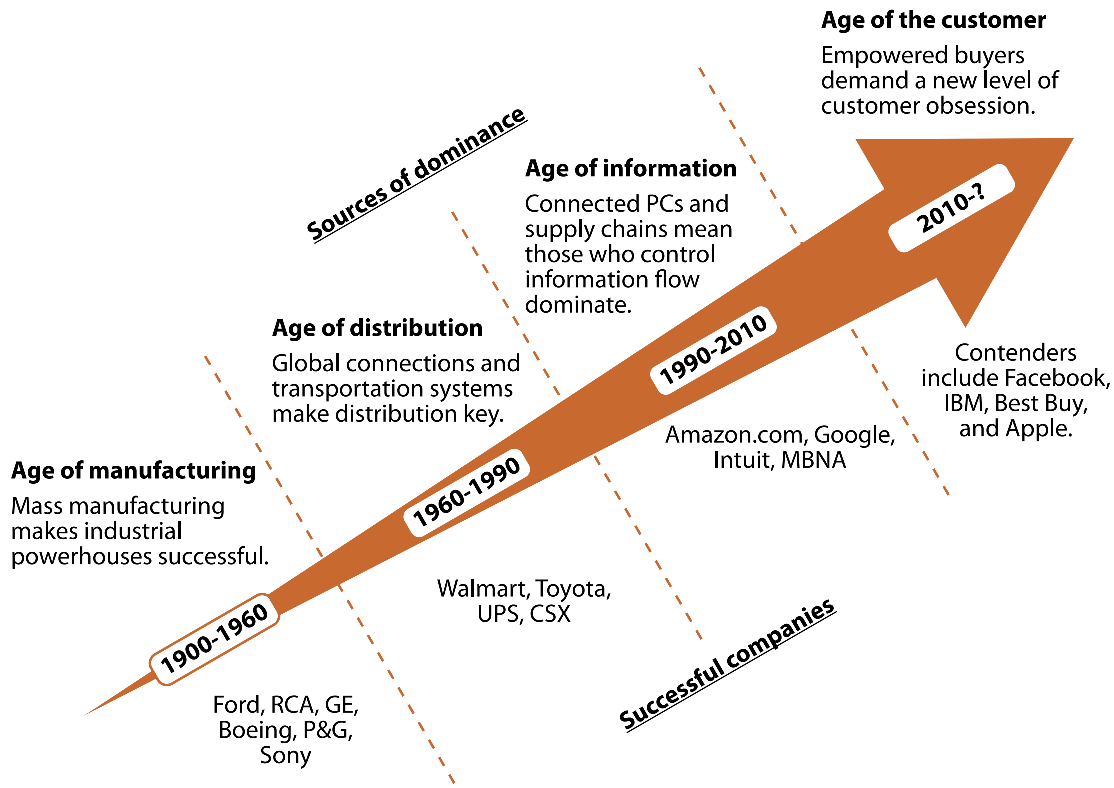
- **1900 to 1960 was the age of manufacturing.** In this era, if you owned the factory, you owned the market. Factories were expensive to build but, once created, generated products at prices that others couldn't compete with. In the age of manufacturing, companies like Ford Motor (cars) and RCA (color TVs) built up a lead with convenient, well-priced, mass-produced products.

- **1960 to 1990 was the age of distribution.** Two trends changed things in the 60s: Business started globalizing, and in developed countries, retail moved with the population to the suburbs. Deregulation and freer trade meant that companies could manufacture cheaply in Asia. In this world, the key barrier to competition was a distribution network — one that brought supplies from where they were cheapest into local retail stores where consumers, energized by mass advertising, could buy these branded goods. Among the companies that took advantage of this shift were Toyota, Procter & Gamble, and Walmart.

- **1990 to 2010 was the age of information.** Networked computers and information technology helped companies master the information flow generated from real-time point-of-sale data to fine-tune their strategies. They embraced global manufacturing supply chains and eventually data-fueled eCommerce to extend that power. Companies with information-centric products and services thrived, including software companies, cable and mobile operators, and financial services providers. In hard goods companies, computers ran billing, customer service, and the product catalog; those that mastered the information flow outmaneuvered their competitors. This information-powered world enabled the rise of companies like Comcast, MBNA, Amazon, and Google.

- **2010 and beyond will be the age of the customer.** One by one, every corporate investment has been commoditized. Now every company can tap into global factories and global supply chains. After huge IT investments, companies are realizing that the Internet cloud provides all of the computing resources they need. Brand, manufacturing, distribution, and IT are all table stakes. The only source of competitive advantage is the one that can survive technology-fueled disruption — an obsession with understanding, delighting, connecting with, and serving customers. In this age, companies that thrive, like Best Buy, IBM, and Amazon, are those that tilt their budgets toward customer knowledge and relationships.

Figure 2 We Have Entered The Age Of The Customer



59159 Source: Forrester Research, Inc.

Revisiting Michael Porter: How The Empowered Customer Upends Competitive Advantage

Competition looks different in the age of the customer. We analyzed the five forces that Michael Porter cites in *Competitive Strategy*, which many view as the definitive guide to competitive strategy (see Figure 3).[4] Examining these forces reveals that an obsession with customer knowledge and relationships is the only source of sustainable competitive advantage.

- **Barriers to entry are lower.** Empowered customers can easily find the cheapest prices from suppliers, large or small, anywhere in the world. This severely weakens traditional barriers to entry: Global outsourcing erodes economies of scale, online channels render distribution strength impotent, customer word of mouth undoes huge brand investments, and networked consumers and entrepreneurs undermine copyrights and patents. While any given startup has a low chance of success, the swarm of thousands of startups threatens competitors in nearly every industry.[5]

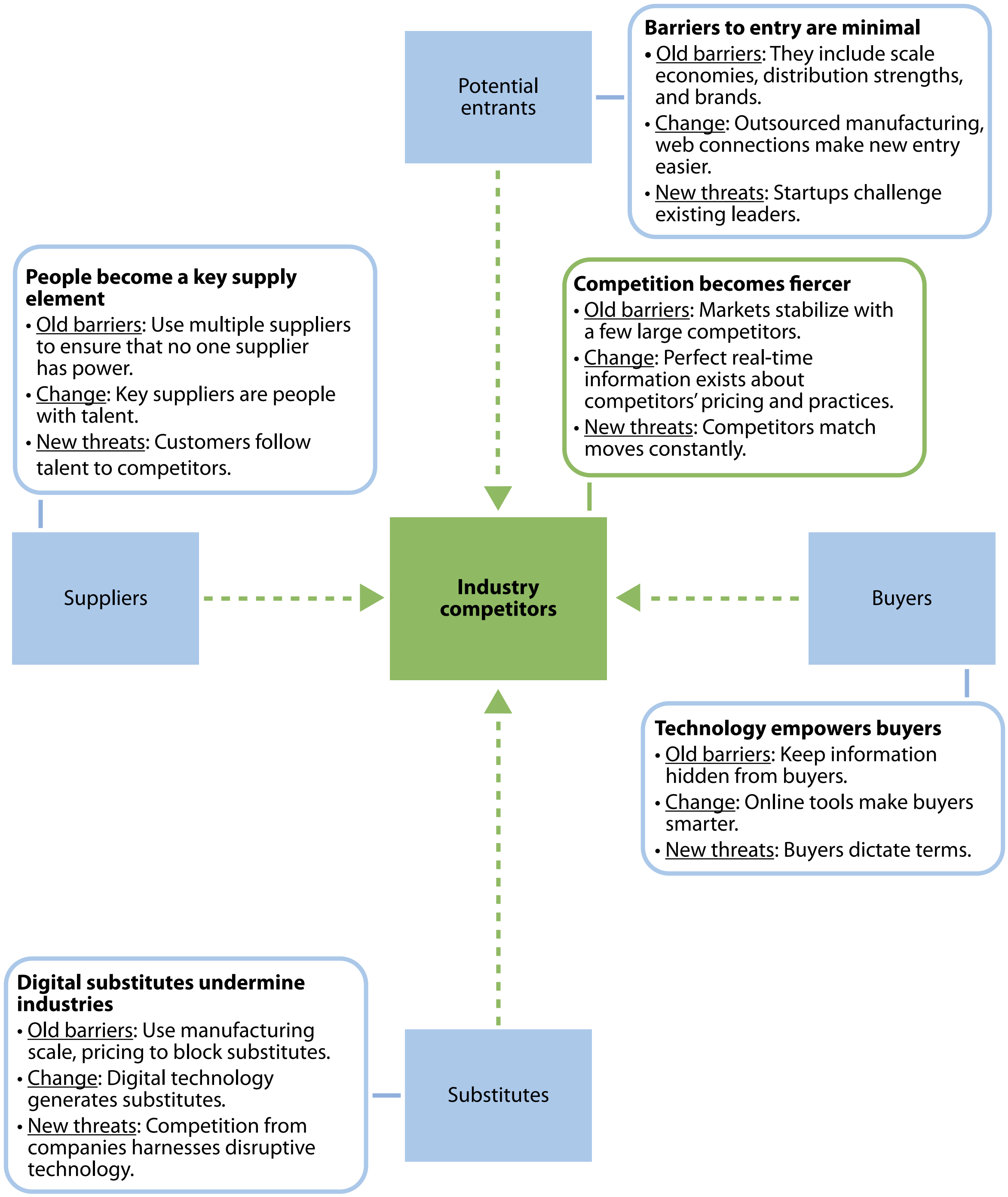
- **Substitute products and channels gut profits.** Digital substitutes abound: Google News undercuts newspapers, Expedia obsoletes travel agents, iPads dent the laptop business, and eBay swallows profits from the whole retail industry.[6] Digital substitution is collapsing value chains and erasing profits across multiple industries. The customer is at the center of this disruption, because innovators targeting any business know that if you give her what she perceives as value, she'll gladly substitute your product for what she's buying now.

- **Buyers have more power than ever.** With online reviews and mobile web access, your customers know more about your products, your service, your competitors, and pricing than you do. Porter said it: "Where the buyer has full information about demand, actual market prices, and even supplier costs, this usually yields the buyer greater bargaining leverage."[7]

- **Employees, a key element of supply, have power over companies.** In a knowledge economy, a key ingredient in any product is *people*. Individuals — whether it's Oprah, a killer salesperson, or your star software engineer — bring knowledge, ideas, and relationships that companies need to remain competitive. And if they don't get what they want, increasingly, they can jump ship and go work for the next guy. Your customers will follow the talent that creates quality content and relationships and leave your company behind.

- **Your competitors now have instant access to your tactics and strategies.** Your own customers are sharing their experiences online, search engines expose interest in keywords, and everything your competition wants to know about you is on your website and those of your best influencers. In short, customers practically serve granular insight about you to your competitors' feet. This amps up competition, since competitors can match or react to any move you make instantly.

Figure 3 Michael Porter's Five Forces Revisited In The Age Of The Customer



59159 Source: Forrester Research, Inc.

YOU WANT TO COMPETE? GET CUSTOMER-OBSESSED

This analysis of Porter's five forces reveals that building barriers is no longer a successful long-term strategy; customers, armed with technology, are now too powerful. The only constant is the loyalty of satisfied customers. As marketing thinker Seth Godin said to us, "If you have already announced that you are in a commodity business, you have given up. We don't need you or your salary, since you make a commodity." Rob Markey, a Bain expert on sources of corporate growth, says that in mature markets, sustainable organic growth comes only from the loyalty of customers.

It's no longer sufficient to be simply "customer-centric" or "customer-focused." The only successful strategy in the age of the customer is to become *customer-obsessed* — to focus your strategic decisions first and foremost on customer knowledge and retention. Here's what we mean:

> *A customer-obsessed company focuses its strategy, its energy, and its budget on processes that enhance knowledge of and engagement with customers and prioritizes these over maintaining traditional competitive barriers.*

Like all strategies, customer obsession is a *choice*, requiring not just a change in stance but a change in how money is spent and a commitment to valuing the customer embrace over building barriers. These are the attributes of a customer-obsessed company:

- **Nimble, emphasizing speed over strength.** Customer-obsessed companies embrace management structures that permit rapid pursuit of customers in new markets and new channels. Rather than defend turf, companies following these strategies continually seek ways to pivot the business to gain new opportunities. According to an IBM study of CEO attitudes, CEOs in the most successful organizations "recognize the value of nimble, agile enterprises that react well to, and even anticipate, the rapid changes inherent in complex environments." Speed matters: When Toyota responded slowly to the charges about defects in its accelerator pedals, automotive site Edmunds.com found that consumer intent to purchase the company's products dropped by almost 50%.[8]

- **Flexible, valuing versatility over lock-in.** Lock-in mechanisms — mobile phone contracts, proprietary technology, and frequent-flier programs, for example — don't create loyalty; they just create barriers to leaving. Maintaining them is expensive when technology innovators attempting market entry relentlessly seek ways to subvert them. In the long run, you'll always be able to use your iPhone on another network, migrate your Microsoft Word files to Google Docs, and plant your body on a comfortable plane from Virgin Atlantic that makes you forget your mileage balance. Customer-obsessed companies worry more about flexing to meet customer needs and less about ways to block them from fleeing.

- **Global, embracing worldwide supplies, demands, and markets.** Your current and emerging competitors are finding new markets. They're obsessing about how to tap the 800 million new middle-class customers, whom Goldman Sachs predicts will rise in Brazil, Russia, India, and China, and are ready to make substantial brand investments in multiple categories. These forces undermine companies that concentrate on sourcing and selling from a home-country perspective only.

- **Smart, providing information-rich services over dumb products or transactions.** The new consumer uses channels — especially mobile channels — to seek information everywhere, instantly. She scans the bar codes in your store and knows your competitors' prices; he gets a flash message when his favorite band is spotted in town. If you're customer-obsessed, then your every product and service needs a halo of quickly updated information in the cloud as well as apps and pages to deliver it in a customized way to smart devices wherever they may be.

CUSTOMER-OBSESSED COMPANIES INVEST DIFFERENTLY

You're not customer-obsessed unless you *change how you budget*. For example, one marketer told us that when he worked with General Motors, "The joke was that low risk was building a $2 billion plant." (How did that work out?) Contrast that with the CEO who decided that rather than open 100 more stores, it would be more profitable to invest in technology and programs to increase loyalty to and revenues from the stores the company already had. Customer-obsessed companies find ways to sell more to current customers and to get them to advocate for them with their friends. According to Bain, "If you are the loyalty leader, on average you will grow twice as fast as your market. Loyalty leaders have a 15% cost advantage."[9] Want to get customer-obsessed? Keep these four priorities in front of you as you budget (see Figure 4):

1. Invest in real-time insight to build products customers will embrace.

2. Spend more on customer experience and customer service to build relationships.

3. Fund sales channels that deliver intelligence about customers, not just push.

4. Shift marketing funds from one-way ads into useful content and interactive marketing.

Figure 4 Strategic And Budget Imperatives For Customer-Obsessed Companies

	Strategic imperatives		**Budgeting changes**	
Budget priorities	Do more of this:	Do less of this:	↑$	↓$
Real-time customer insights for products	Combine real-time monitoring and database insights; search for unarticulated needs	Slow survey-based research, untargeted email blasts	Social listening platforms, customer intelligence	Traditional research surveys
Customer experience and customer service	Fund a customer experience group that works across channels	Customer service staff goaled on call volume	Comprehensive customer experience, call center training	Single-channel customer experience programs
Intelligent sales channels	Focus on end users and repeat business; build a customer database	Cram channels to inflate sales	Rich customer databases	Channel sales
Interactive content and marketing	Create content that drives inbound traffic; build mobile apps to engage customers	Knee-jerk social apps and advertising blasts	Goal-driven social and mobile apps, site content	One-way advertising

59159 Source: Forrester Research, Inc.

Invest In Real-Time Insight To Build Products Customers Will Embrace

Customer-obsessed companies have multiple sources of intelligence about the needs of their customer base and see every interaction as an opportunity to learn more. They constantly adjust to small insights, even as their clear vision allows them to create new products or open new channels. To prepare your company for the age of the customer, you should:

- **Make social listening a source of real-time insight.** Companies like Gatorade, Dell, and Intel have created social listening centers to track real-time insights about their brands.[10] Why? Because being obsessed means tracking customer needs that change by the moment, based on styles, competitors' moves, and word of mouth, and because social chatter is the early-warning system when disruptive change happens. Manish Mehta, vice president of social media and community at Dell, told us that Dell's Social Media Listening Command Center makes customer conversations across the Web visible as they happen and highlights their power. This has persuaded executives throughout the organization to place a great emphasis on listening to customers.

- **Transform history-loving research departments into future-focused strategy teams.** Does your market research come from a poorly funded group with insights that come too late to change product directions? Customer-obsessed companies should task market insight and customer intelligence teams with a single mandate to drive business success through accurate, timely, business-relevant, and actionable customer knowledge. Firms that do this will have one common organizing theme: They will align their market insights and customer intelligence functions under a strategic leader, the customer strategist.[11]

- **Build products or services based on needs your customers can't yet articulate.** Small-business users bedeviled the support staff for Intuit's personal finance product Quicken, until product strategists realized that these customers had an unmet need and created QuickBooks — a product that now generates $500 million per year. Apple watched iPhone users browse and use apps and imagined a browsing device with room to read: the iPad. To think at the needs level, analyze your product's or service's shortfalls, identify what competitors do better, uncover customers' desires *outside* of your product category, and, finally, determine how your resources could meet the needs you've identified.[12]

Spend More On Customer Experience And Customer Service To Build Relationships

How's your service reputation? If you treat customer service as just a cost center and customer experience as a channel to get people's money, your reputation will suffer — and that won't do in the age of the customer. According to Bain, a 5% increase in customer retention can generate a 75% increase in profitability, and it costs six times more effort to get a customer than to keep one whom you already have. A customer-obsessed company must increase investments in customer experience and customer service to generate *relationships* and amplify fans.

- **Free your call center slaves — invest in customer-obsessed service.** Your call center staff may be making thousands of impressions per day. Paradoxically, customers who experience problems and then get them solved are actually *more* loyal to companies than those who never had a problem at all.[13] Comcast, a company many people hate, spent more than $2 billion in service improvements in the past two years, focusing on solving the problem the first time. Fieldwork costs dropped, and expensive customer churn went down between 15% and 20%. To fix your call center, hire carefully for a problem-solving mentality, train for conversation skills, and measure and reward problem-solving excellence over speed.[14]

- **Don't just talk about customer experience; fund it.** While 86% of companies we surveyed say that customer experience is a top strategic priority for 2011, only 30% dedicate funds for customer experience improvements. That's not a budget obsessed with customers. Instead, invest in experience that spans all touchpoints — in person, on the phone, on the Web, and on any other devices or channels the company uses. Best practice: Create a centralized team to spearhead this change, and dedicate funds to improvements — and measurement — that can be applied to any channel.[15]

Fund Sales Channels That Deliver Intelligence About Customers, Not Just Push

Sales is a classic push channel, but push implies resistance. As one senior marketer puts it, most sales teams are "coin-operated" — incented purely on getting the signature on the dotted line. Unless your sales teams collaborate to solve customer problems, like the engineering-focused salespeople at IBM do, investing more in push is the wrong kind of customer obsession. If you've got a large sales team, shift budget to:

- **Prioritize end user customers over channels.** Many sales teams focus on channels (like retail stores, value-added resellers [VARs] for selling technology, packagers, or other middlemen). But getting the channel to push a product the end user doesn't want is expensive and counterproductive.[16] Instead of channel sales, invest in departments that touch the end user and generate insights and relationships, like your call center or website. Creating better word of mouth and a better experience will generate pull and make the existing sales staff more productive.

- **Obsess about repeat business, not new business.** New business is expensive; repeat customers are far more accessible. At Bank of America, the focus is now on getting more business from the existing customer base — in a recent in-branch experience, the teller identified that we had a healthy cash balance and called over a manager, who left a card and a handout about services for preferred customers.

- **If you don't know your customers, create a connection.** TV networks often spend more energy on the advertisers and cable operators that pay them than on viewers. Nickelodeon, though, realized that it needed to know its customers to obsess about them. The result was direct customer connections like a text-messaging enhancement that boosts interest during the broadcast of its *Degrassi High* series. When you build a database of contacts like this, you learn about and generate revenues from customers in new channels. That will pay off when technology disrupts your traditional distribution channel and the sales team that calls on it.

Shift Marketing Funds From One-Way Ads Into Useful Content And Interactive Marketing

Jeff Bezos says, "Brand is what people say when you leave the room." These days, that impression depends as much on experience and service as it does on advertising. We agree with Ian Wolfman of imc2, who advises companies to stop using ads to cover up a weak reputation, unhappy customers, and strong competitors. Prioritize word of mouth over mouthing off: Cut your ad budget by at least 10%, and spend the money on connections that have a multiplier effect like social, devices, and content. Ads are far more effective when customers are primed to believe them.

- **Don't just embrace social applications; measure their impact.** Yes, PepsiCo's and Burger King's results were down after investing in social applications.[17] The customer-obsessed marketer stimulates and *measures* word of mouth, so she can prove it's working. Any campaign should measure click-throughs that lead to sales, leads, or database sign-ups that you can tie to business results. And as organizations like Nascar and Microsoft have found, a tight social connection not only amplifies fan activity but also generates learning that leads to better products and easier marketing in the future.[18]

- **Delight customers with mobile devices that supply information instantly.** A mobile application that's finely tuned for a moment of need — personalized and location-aware — demonstrates true customer obsession. For example, American Airlines' mobile app helpfully shows the gate information about your upcoming flight and even pops up a TSA-ready mobile boarding pass. Sherwin-Williams' app matches colors from photos, helping to draw in some female customers less comfortable with hardware stores. The Philadelphia Eagles' text-messaging system provides instant service to fans having problems during a game. Our data shows that mobile customers spread more influence than other customers.[19]

- **Be generous with content.** Generous brands are those that give customers things they want along with, or even before, a purchase. Glenn Engler, CEO of agency Digital Influence Group, says that generous brands give customers "what they care about, as opposed to stopping or interrupting them." Think of the prepared foods and eating areas at Whole Foods Market or the extensive blogs and white papers at IBM. Generosity with content drives a lot of inbound interest in companies' sites and social presences, far more cheaply than advertising. So spend some of those ad dollars on helpful content and services.

WHAT IT MEANS

CUSTOMER-OBSESSED COMPANIES WILL MASTER DATA AND FRONTLINE STAFFING

The budgeting changes necessary in a customer-obsessed company will ripple throughout the organization, from IT to the media buyers. Market research, marketing, and especially advertising will look very different.

- **Data and influencers will fuel ad spending.** Advertising is about tipping prospects into buyers. In the customer-obsessed company, ad spending must be nimble and smart to match rapidly shifting customer needs, with ads customized based on intimate knowledge about customers and their habits. Startups like AdParlor, which optimizes pay-per-click Facebook ads based on ever-improving knowledge about ad units and their targets, will thrive on matching customers with relevant ads. We also expect to see increasing investments in developing earned media from Mass Mavens and Mass Connectors, the consumer word-of-mouth leaders who account for 80% of all influence in social technology environments.

- **Companies will bring data in-house, where it can be secure and effective.** Companies without direct customer relationships will suffer margin pressure; they'll need to buy data from their retail or sales channels to take their customer knowledge from mass to individual. Many companies now rely on third parties to collect and maintain their customer data, but this will change; data breaches like the one at email service provider Epsilon could damage reputations irreparably in the age of the customer. IBM and other leading data security vendors will thrive in this environment.

- **Data chains will run parallel to supply chains.** Supply chain management today focuses on getting the right product to the place where people want to buy it, in exactly the right quantity at the right time. It's a fine idea, but supply chains don't provide enough information on those customers to suppliers. Next-generation supply chains won't just get product on shelves but will deliver upstream data about buyers into the hands of suppliers. As rapid response to changes in demand becomes a key part of customer focus, this flow of data will increasingly determine which companies succeed.
- **Retail will upgrade its selling floor staff.** In a customer-obsessed company, can the selling floor staff be the lowest-paid people with the highest turnover? That's not smart. Retailers looking to retain customers will invest in service staff at the quality level of retailers John Lewis or Nordstrom, recruiting from the ranks of today's unemployed college graduates with better benefits, more decision-making authority, and clearer career tracks to boost employee and customer loyalty.
- **Marketers will learn the difference between customer-possessed and customer-obsessed.** The simplest way to become customer-obsessed is to give the customer exactly what she wants — but as Henry Ford noted, that would have meant giving people "a faster horse." Instead, companies will need to combine their own insights with the latent desires of customers. Look for a growth in the kind of communities that companies like hotelier IHG and Godiva Chocolatier are building, where loyal customers collaborate with corporate innovators to design the next generation of products.

SUPPLEMENTAL MATERIAL

Companies Interviewed For This Document

Bain

Bank of America

Comcast

Dachis Group

Digital Interactive Group

Get Satisfaction

HubSpot

IBM

Imc2

MTV Networks

Performable

Razorfish

Resource Interactive

Rockfish Interactive

ENDNOTES

[1] Based on our surveys, people make 500 billion impressions on one another about products and services within social environments every year. Sixteen percent of consumers generate 80% of the impressions — we call these Mass Influencers. See the April 20, 2010, "Peer Influence Analysis" report.

[2] Source: ITU (http://www.itu.int/).

[3] Clayton M. Christensen has written eloquently about how disruptive technology upends markets and confounds competitive strategy. Source: Clayton M. Christensen, *The Innovator's Dilemma*, Harvard Business School Press, 1997.

[4] Michael E. Porter's book *Competitive Strategy* has been taught to generations of business school students. We're not the first to point out how Porter's competitive forces have changed. Larry Downes cited globalization, digitalization, and deregulation as forces undermining Porter's framework. Source: Michael E. Porter, *Competitive Strategy*, Free Press, 1980; Larry Downes, "Beyond Porter," *Context Magazine*, 1997.

[5] Porter acknowledges this in his description of the "experience curve" — the advantage established competitors have by virtue of their experience in the market: "The barrier [to entry] can be nullified by product or process innovations leading to a substantially new technology and thereby creating an entirely new experience curve." Source: Michael E. Porter, *Competitive Strategy*, Free Press, 1980.

[6] Media digitization removes distribution scarcity, challenging business models for every form of media from music to print and TV. See the October 9, 2009, "How To Rebuild The Media Industries" report.

[7] Source: Michael E. Porter, *Competitive Strategy*, Free Press, 1980.

[8] Source: "Edmunds.com: One Year On, Lingering Safety Concerns Are Not All That Ails Toyota," Edmunds.com press release, January 25, 2011 (http://www.edmunds.com/about/press/edmundscom-one-year-on-lingering-safety-concerns-are-not-all-that-ails-toyota.html).

[9] This is based on a personal interview with Rob Markey.

[10] A social intelligence command center — a dedicated resource for listening to the groundswell — makes sense for large consumer brands. See the April 27, 2011, "Best Practices: The Social Intelligence Command Center" report.

[11] As companies become more customer-centric, market insights professionals must evolve their role to constantly collect customer data. We expect a new kind of insights organization to emerge, combining the old roles of market research and database marketing. See the April 29, 2011, "Preparing For The Intelligent Enterprise: A Blueprint For Market Insights Professionals" report.

[12] Consumers have four fundamental needs: comfort, variety, connection, and uniqueness. See the February 4, 2010, "What People Really Need" report.

[13] One place to read about the service recovery paradox is in the textbook *Services Marketing* by Valarie Zeithaml, Mary Job Bitner, and Dwayne Gremler. Source: Valarie Zeithaml, Mary Job Bitner, and Dwayne Gremler, *Services Marketing*, McGraw-Hill, 2008.

[14] Call centers offer companies daily opportunities to create meaningful connections with customers. Even so, customer experience professionals largely ignore call centers. See the February 23, 2011, "Reinvent Your Call Center Culture To Create Amazing Customer Experiences" report.

[15] Forrester surveyed 118 customer experience professionals. Most companies are ill prepared to compete based on customer experience. See the February 17, 2011, "The State Of Customer Experience, 2011" report.

[16] Concentrating on channels over end customers is what we call "dog food marketing" — selling the owner on the idea that the dog will like the food. It makes a lot more sense for dog food than it does when selling to humans through channels. Source: Josh Bernoff, "Wrong customer, or, the perils of dog food marketing," *empowered*, September 11, 2009 (http://forrester.typepad.com/groundswell/2009/09/wrong-customer-or-the-perils-of-dog-food-marketing.html).

[17] Source: Jonathan Salem Baskin, "Do Campaign Failures, High Profile Firings Signal the End of Social Media?" *Advertising Age*, March 22, 2011 (http://adage.com/article/cmo-strategy/pepsi-burger-king-news-signal-end-social-media/149523/).

[18] These examples are drawn from two winners of the Forrester Groundswell Awards. Nascar created a community with 12,000 fans to advise it on how to improve races; Microsoft conducted 40,000 parties and used the site http://windows.com/social to energize fans of Windows 7.

[19] For a more detailed description of the text messaging application used by the Philadelphia Eagles NFL team, refer to Forrester's book *Empowered*. Source: Josh Bernoff and Ted Schadler, *Empowered: Unleash your Employees, Energize your Customers, Transform your Business*, Harvard Business Review Press, 2010 (http://www.forrester.com/empowered).

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