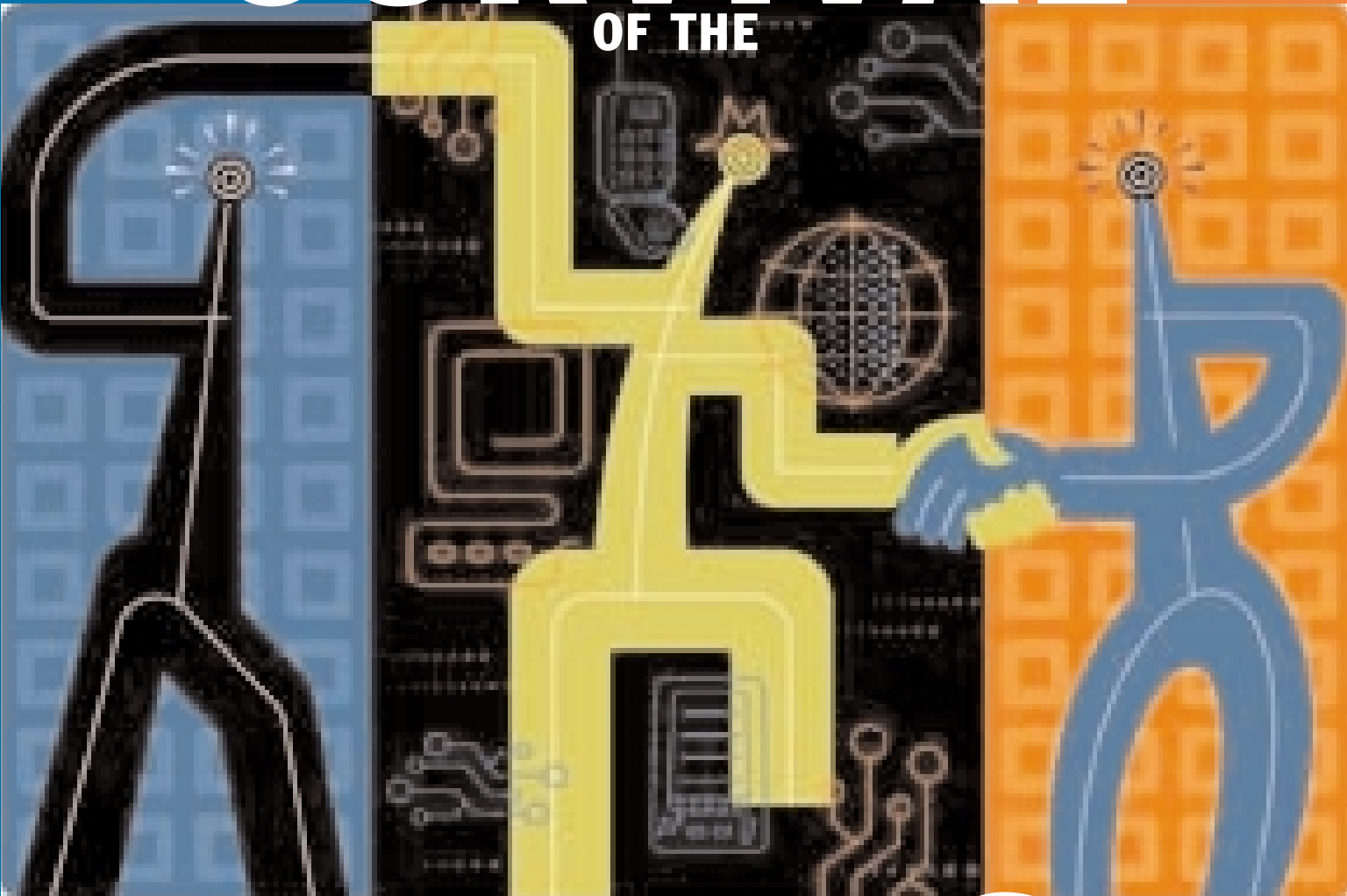


SURVIVAL

OF THE



FITTEST

BY PHIL TERRY



DIRECT MARKETERS can dramatically improve their businesses if they focus more on the customer experience. Indeed, an ongoing customer-experience discipline provides a critical advantage in the “survival of the fittest” marketplace.

In everyday usage, fittest has come to mean strongest or biggest. More accurately, however — and the way the word is used here — it means best suited for the prevailing conditions. Put another way, there are some business conditions in which biggest is not best, but a good fit will always prevail.

While businesses rightfully focus on a number of key strategic factors, a disciplined focus on the unmet needs, expectations, and behavior of their customers can play a critical role in building businesses that fit. Wal-Mart founder Sam Walton built a highly successful retail operation — surviving many of his competitors, including Kmart (which for a long time was much bigger than Wal-Mart). How? By instituting an ongoing and relentless focus on the customer, he made his business “fit.”

Regardless of a company’s budget or size, there are three sets of customer-focused activities that direct marketers can perform to succeed in the survival of the fittest:

- **Conduct behavioral customer research early and often.**
- **Focus brand strategy on customer interaction.**
- **Build a customer-experience team.**

In our research and consulting experience, these activities not only help firms survive and grow; they but also typically raise key metrics between 40 and 150 percent. It’s good business to make your business fit with your customers.

Conduct Behavioral Customer Research Early and Often

The cornerstone of any successful business is its ability to know its customer. However, as few as 25 percent of American businesses conduct research with their customers. Further, of the companies that do conduct research, most employ surveys or focus groups — approaches that do not take into account the gap between what customers say and what they actually do.

The common mistakes that companies make include:

- **No research** — many businesses do not conduct research or include any other kinds of activities that bring the needs of the customer into the business.
- **Opinion-based research only** — many companies find it easy to conduct surveys or focus groups. Surveys have a role, as I’ll explain, but behavioral-based research methods are critical to success.
- **Tactical, not strategic** — many companies focus on details (e.g., where to place a link, what color a button should be) and lose sight of the overall picture. Customer experience is a holistic discipline that should include both tactical and strategic considerations. Unfortunately, of the few companies that do conduct behavioral research, most of them run such sessions when it’s too late (i.e., at the end of a product or service development process). Running the test so late in the process forces the results to be tactical. Insights into the unmet needs and behaviors of customers should influence strategy and development from the beginning.

ACCORDING TO *The New York Times*, in 2002 Liz Claiborne redesigned its online store, tripling its sales conversion rate. Behavioral research conducted at the beginning of the process shaped the strategy for redesign and set priorities so that the team focused on the most important issues.

In 1999, Gateway had a similar experience, and because it ran behavioral research early and often, it realized a 40-percent gain in its sales conversion rate. Given the average order size, which was greater than \$1,000, this improvement translated into millions of dollars of incremental revenue and profit.

Many other direct marketers in retail, financial services, media, and entertainment, such as Travelocity, A&E Direct, Microsoft, Hartford Insurance, and *The Washington Post*, have also seen these kinds of results.

How can other companies copy their success?

Here are the key elements of a successful customer research process:

Behavioral Research

Customers rarely lie, yet there is a gap between what people say and what they do. One large travel company ran a series of focus groups asking its customers to describe what they would like in a travel experience. Unfortunately, the customers' "aspirations" for a travel experience were the complete opposite of what these customers actually did in real life.

Target Corp. participated in free behavioral research at The DMA net.marketing conference in 2003. The research took the form of lis-

tening labs, which emphasize natural customer behavior over opinion (see story on page 34).

Based not on what a potential shopper said, but on his or her

Customers rarely lie, yet there is a gap between what people say and what they do.

actual behavior with the business, Target rebranded and redesigned key aspects of its business before the conference concluded, realizing a significant improvement in the brand and usability.

Early and Often

Companies that succeed conduct research before conceptualizing the product strategy, during product development, and after launch — in other words, early and often.

Leading online travel players such as Travelocity and CheapTickets conduct multiple user research sessions each year. In an overhaul of their service last year, CheapTickets ran user research at

the beginning of its redevelopment and again throughout the process. The insights from the research led to a new online customer experience that doubled their sales conversion rate.

Smaller companies may not be able to conduct multiple sessions a year, but they certainly can conduct several and can do it informally, without the need to hire consultants. Companies including Uncommon Goods report that they run informal sessions at minimal cost throughout their product development process.

Shared Research Experience

In addition to running behavioral research continuously, the best companies ensure that the sessions are observed by a large cross-section of employees. The direct marketing group at A&E Television Networks recently ran a series of listening labs on the A&E store. Twenty-five observers from across the company came to participate in each session.

The benefits of the shared research experience included creating a consensus on priorities and improving the "organization behind the interface."

Let Customer Behavior Set Strategic Priorities

Most companies struggle with having too many items on their list (i.e., few players know what the priorities should be for improving their business). It is not uncommon for a project manager to maintain a list of 125 change requests for the catalog, call center, Web site, or retail store.

The question becomes what five changes (of the 125 that are possible) should be made today — that is, which five of the 125 will lead to the greatest business improvement?

A major direct marketer ran a series of labs with new and current customers. In the course of one day of research (eight one-on-one sessions), the priorities for change became clear to the entire management team sitting behind the glass. The ability for the research to help set priorities (and create a consensus about those priorities) improved the strategy and the project dramatically — and the results showed when the company relaunched its e-commerce operation, doubling its sales conversion rate.

In another example, Gateway ran listening labs and invited 20 team members to attend, representing a cross-section of the organization: advertising, marketing, technology, customer service, merchandising, and the vice president of e-commerce, who “owned” the site. By team members spending the day together watching customers interact with their business, internal divisions melted away, replaced by a consensus about priorities for strategic change.

Action Step: Before your next set of improvements to your catalog, Web site, or direct mail, set up a

listening lab and invite a strong cross-section of employees. Let the research results help set priorities before you set strategy. Then conduct the research again, and again.



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Focus the Brand on Customer Interaction

Conventional marketers stay too far from customers and focus on the visual brand rather than the experience of interacting with the business. Direct marketers, as a group, tend to be more focused on the interaction.

That’s good: While it’s true that a brand is created through both perception and experience, it’s the latter that is responsible for 80 percent of a strong brand.

In fact, in a recent survey of the Customer Experience Council,

senior-level marketers agreed that brand is primarily built by customer interaction, not visual perception. Survey respondents included senior people from a wide range of companies, including Amazon, Google, Credit Suisse, *The New York Times*, *The Washington Post*, HBO, TiVo, and AARP.

Action Step: Watch yourself in your next interaction with a retail store, Web site, or catalog. Note what worked and what did not, but be careful to keep your customer hat on and your business hat off. Once you have done that, visit a popular Web site called This Is Broken (ThisIsBroken.com), and review the entries from other people — and if you have had a poor experience, submit one yourself. Use this experience as a way to improve your understanding of the power of

interaction in building a brand and a trusted relationship.

Create a Customer-Experience Team

While it can be relatively easy to focus on the customer experience in the short term, many companies find it difficult to maintain that focus over a period of months or years. One way to maintain the momentum of a customer-focused strategy is to create a “customer-experience team” within the organization.



A customer-experience team is a group of employees, from separate areas of the organization, focused on looking at their company from a customer's perspective. They should discuss the trade-offs of one decision or another from various perspectives. Therefore, the team should be a cross-functional representation of key business units and central support services like design, technology, and customer service. Large companies may have 20–25 people, while others may have a group of three. Some teams should even include key outside vendors. The size is less important than the recognition that such a team is critical to long-term survival and success.

Action Step: Create a cross-functional customer-experience team in your organization and task it with running customer research, analyzing metrics, and improving the overall “fit” of your business as the marketplace and customer needs evolve.

Bad News, Good News

Building a customer-experience discipline is one of the most important investments a company can make. In our experience, firms realize dramatic increases in ROI and improvements of 40 to 150 percent in key operating metrics.

The bad news is few companies take the time to build this discipline. The good news is that few companies take the time to build this discipline — “good news” because in the “survival of the fittest” competition, the few com-

Listening Labs — Free Research at DMA Conferences

The DMA provides free behavioral research at DMA conferences in the form of listening labs, first launched at the 2002 Catalog Conference in Chicago. The attendee response was so favorable that The DMA will offer Web site solutions labs at the 2004 net.marketing and catalog conferences.

Listening labs are one-on-one conversations between a customer — someone who interacts with the business via a catalog, Web site, or TV ad — and a facilitator, joining the best aspects of traditional usability tests and less directed focus groups. They are open-ended, qualitative environments that capture both strategic and tactical customer insights.

Labs are often conducted in a testing facility, with observers sitting behind a one-way mirror. Typically, 20 or more members of the client organization attend, including senior members of the marketing, sales, technology, and product development teams. Between each session, the facilitator runs a dialogue with the client observers to discuss the key patterns that are emerging and identify any surprises or counter-intuitive insights from the customer research.

Listening Labs Bring These and Other Benefits to Companies:

- Bring a customer focus to strategy.
- Identify the key priorities for improvement.
- Center the business on customer needs, uniting often divisive internal groups.

Listening labs should be conducted before a business strategy is set, during product development, prior to launch, and throughout the product or service lifecycle. They are done informally or formally by companies of all sizes and budgets.

To sign up for a free listening lab at 2004 net.marketing, Catalog, or Annual conferences, contact Phil Terry at pterry@creativegood.com.

panies that invest in this discipline realize significant competitive advantage.

Sam Walton said it best: “Business is a competitive endeavor, and job security lasts only as long as the customer is satisfied.” ■

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