# UNIT 2

# Research, Markets, and Consumer Behavior

## Unit Selections


17. **A Step-by-Step Guide to Smart Business Experiments,** Eric T. Anderson and Duncan Simester
18. **Know What Your Customers Want before They Do,** Thomas H. Davenport, Leandro Dalle Mule, and John Lucker
19. **Respect Your Elders,** Tom Stein and Tim Devaney
20. **Marketing to Kids Gets More Savvy with New Technologies,** Bruce Horovitz
21. **It's Cooler than Ever to Be a Tween,** Sharon Jayson
22. **Segmenting the Base of the Pyramid,** V. Kasturi Rangan
23. **Can More Information Be a Bad Thing?** Robert S. Duboff
24. **The Tyranny of Choice: You Choose,** *The Economist*
25. **Tapping the Untapped,** Diana Derval


## Learning Outcomes

***After reading this Unit, you will be able to:***

- As marketing research techniques become more and more advanced, and as psychographic analysis leads to more and more sophisticated models of consumer behavior, do you believe marketing will become more capable of predicting consumer behavior? Explain.
- Where the target population lives, its age, and its ethnicity are demographic factors of importance to marketers. What other demographic factors must be taken into account in long-range market planning?
- Psychographic segmentation is the process whereby consumer markets are divided up into segments based upon similarities in lifestyles, attitudes, personality type, social class, and buying behavior. In what specific ways do you envision psychographic research and findings helping marketing planning and strategy in the next decade?

## Student Website

www.mhhe.com/cls

## Internet References

**Canadian Innovation Centre**
www.innovationcentre.ca

**BizMiner—Industry Analysis and Trends**
www.bizminer.com/market_research.asp

**Small Business Center—Articles & Insights**
www.bcentral.com/articles/krotz/123.asp

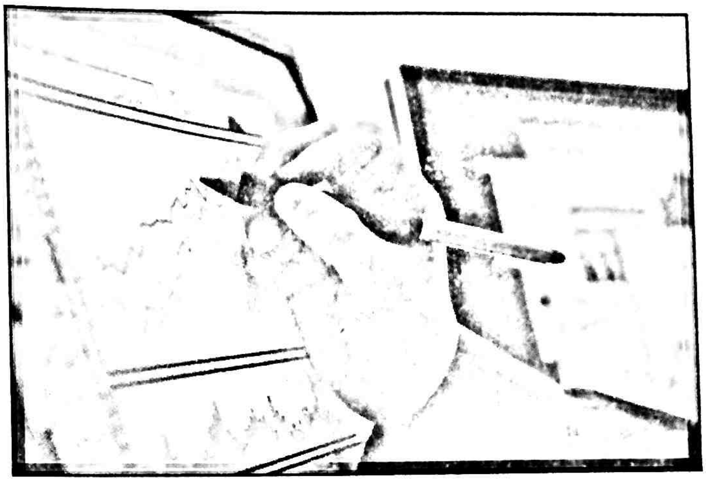
**Maritz Marketing Research**
www.maritzresearch.com

**USADATA**
www.usadata.com

**WWW Virtual Library: Demography & Population Studies**
http://demography.anu.edu.au/VirtualLibrary

"It's hard to target a message to a generic 35-year-old middle-class working mother of two. It's much easier to target a message to Jennifer, who has two children under four, works as a paralegal, and is always looking for quick but healthy dinners and ways to spend more time with her kids and less time on housework."

—Elizabeth Gardner, Internet Retailer



Steve Cole/Getty Images

If marketing activities were all we knew about an individual, we would know a great deal. By tracing these daily activities over only a short period of time, we could probably guess rather accurately that person's tastes, understand much of his or her system of personal values, and learn quite a bit about how he or she deals with the world.

In a sense, this is a key to successful marketing management: tracing a market's activities and understanding its behavior. However, in spite of the increasing sophistication of market research techniques, this task is not easy. Today, a new society is evolving out of the changing lifestyles of Americans, and these divergent lifestyles have put great pressure on the marketer who hopes to identify and profitably reach a target market. At the same time, however, each change in consumer behavior leads to new marketing opportunities.

The writings in this unit were selected to provide information and insight into the effect that lifestyle changes and demographic trends are having on American industry.

The first article in the *Market Research* subsection argues that every company can profit from testing customers' reactions to change. The authors provide step-by-step guidance to companies on how to start. The second article, "Know What Your Customers Want Before They Do," suggests that retailers need to target customers with the right deal, "the next best offer" at the right time.

The articles in the *Markets and Demographics* subsection examine the importance of demographic and psychographic data, economic forces, and age considerations in making marketing decisions. "Respect Your Elders" argues that the ideal marketing mix should make room for both digital and conventional marketing techniques. In "Marketing to Kids Gets More Savvy with New Technologies," Bruce Horovitz tackles the controversial issue of the increased practice of targeted advertising to tech-savvy children. In her *USA Today* article, Jayson argues that tweens are an attractive, yet very complicated market segment, and finally, "Segmenting the Base of the Pyramid" establishes that, if companies link their own financial success with that of their constituencies, marketing to the base of the pyramid can be quite profitable.

The articles in the final subsection analyze how consumer behavior, social attitudes, cues, and quality considerations will have an impact on the evaluation and purchase of various products and services for different consumers. Duboff tackles the subjective components of consumer choice and problem solving. *The Economist* presents an entertaining look at how variety in choices can hinder the consumer decision-making process. The final article, "Tapping the Untapped" proposes that preferences and purchases may be linked to consumers' physiology and perception.

*Article 17*

# A Step-by-Step Guide to Smart Business Experiments

**Every company can profit from testing customers' reactions to changes. Here's how to get started.**

ERIC T. ANDERSON AND DUNCAN SIMESTER

Over the past decade, managers have awakened to the power of analytics. Sophisticated computers and software have given companies access to immense troves of data: According to one estimate, businesses collected more customer information in 2010 than in all prior years combined. This avalanche of data presents companies with big opportunities to increase profits—if they can find a way to use it effectively.

The reality is that most firms can't. Analytics, which focuses on dissecting past data, is a complicated task. Few firms have the technical skills to implement a full-scale analytics program. Even companies that make big investments in analytics often find the results difficult to interpret, subject to limitations, or difficult to use to immediately improve the bottom line.

Most companies will get more value from simple business experiments. That's because it's easier to draw the right conclusions using data generated through experiments than by studying historical transactions. Managers need to become adept at using basic research techniques. Specifically, they need to embrace the "test and learn" approach: Take one action with one group of customers, take a different action (or often no action at all) with a control group, and then compare the results. The outcomes are simple to analyze, the data are easily interpreted, and causality is usually clear. The test-and-learn approach is also remarkably powerful. Feedback from even a handful of experiments can yield immediate and dramatic improvements in profits. (See the sidebar "How One Retailer Tested Its Discount Strategy.") And unlike analytics, experimentation is a skill that nearly any manager can acquire.

Admittedly, it can be hard to know where to start. In this article, we provide a step-by-step guide to conducting smart business experiments.

## It's All about Testing Customers' Responses

In some industries, experimentation is already a way of life. The J. Crew or Pottery Barn catalog that arrives in your mailbox is almost certainly part of an experiment—testing products, prices, or even the weight of the paper. Charitable solicitations and credit card offers are usually part of marketing tests, too. Capital One conducts tens of thousands of experiments each year to improve the way it acquires customers, maximizes their lifetime value, and even terminates unprofitable ones. In doing so, Capital One has grown from a small division of Signet Bank to an independent company with a market capitalization of $19 billion.

The ease with which companies can experiment depends on how easily they can observe outcomes. Direct-mail houses, catalog companies, and online retailers can accurately target individuals with different actions and gauge the responses. But many companies engage in activities or reach customers through channels that make it impossible to obtain reliable feedback. The classic example is television advertising. Coke can only guess at how viewers responded to its advertising during the last Olympics, a limitation recognized by John Wanamaker's famous axiom, "Half the money I spend on advertising is wasted; the trouble is, I don't know which half." Without an effective feedback mechanism, the basis for decision making reverts to intuition.

In practice, most companies fall somewhere between these two extremes. Many are capable of conducting tests only at an aggregate level, and they're forced to compare nonequivalent treatment and control groups to evaluate the response. If Apple wants to experiment with the prices of a new iPhone, it may be limited to charging different prices in different countries and observing the response. In general, it's easier to experiment with pricing and product decisions than with channel management or advertising decisions. It's also easier to experiment in consumer settings than in business-to-business settings, because B2C markets typically have far more potential customers to serve as subjects.

## Think Like a Scientist

Running a business experiment requires two things: a control group and a feedback mechanism.

## Overcoming Reluctance to Experiment

A large bank we worked with decided to use experiments to improve the way it advertised its certificates of deposit, a core product. In the past, decisions on ads had been made largely by a single manager, whose extensive experience endowed him with power and status within the organization—and a big salary.

The possibility that the bank would use experiments to supplant his intuitive decision making was a threat to the manager. Not surprisingly, he obstructed the process, arguing that planning lead times were too long and decisions had already been made. A senior leader whose P&L was directly affected by the advertising decisions had to intervene. He allowed the experiments to go forward—and reassured his team that any missteps resulting from the experiments would not affect their year-end bonuses.

Organizational recalcitrance is one of the key hurdles companies encounter when trying to create a culture of experimentation. The main obstacle to establishing the new usual is the old usual. Organizations have their ways of making decisions, and changing them can be a formidable challenge.

One mistake some firms make is to delegate experimentation to a customer intelligence group. This group has to lobby each business unit for the authority to conduct experiments. That's the wrong approach: Experiments are designed to improve decision making, and so responsibility for them must occur where those decisions are made—in the business units themselves.

It is also important to set the right expectations. It's a mistake to expect every experiment to discover a more profitable approach—perhaps only 5 percent of them will do that. Those odds mean that taking eight months to implement a single large-scale experiment is a bad strategy. Productive experimentation requires an infrastructure to support dozens of small-scale experiments. Of perhaps 100 experiments, only five to 10 will look promising and can be replicated, yielding one to two actions that are almost certain to be profitable. Focus your organization on these and scale them hard. Your goal, at least initially, is to find the golden ticket—you're not looking for lots of small wins.

Golden tickets can be hard to find, but that's largely because most organizations lack the perseverance to overcome the institutional resistance that stands in the way of discovering them.

Though most managers understand the purpose of control groups in experimentation, many companies neglect to use them, rolling out tests of new offerings across their entire customer base. A company that wants to evaluate the effect of exclusivity on its dealer network, for instance, is missing an opportunity if it offers all its dealers exclusivity. It should maintain nonexclusivity in certain regions to make it easier to evaluate how exclusivity affects outcomes.

Ideally, control groups are selected through randomization. When Capital One wanted to test the effectiveness of free transfers of balances from other credit cards (the innovation that initially launched its success), it offered the promotion to a random sample of prospective customers, while a different random sample (the control group) received a standard offer. Often it makes sense for a company to set up a treatment group and then use the remainder of the customer base as a control group, as one bank did when it wanted to experiment with its online retail trading platform. That approach gave bank managers a very large sample of equivalent customers against which to evaluate the response to the new platform.

The key to success with treatment and control groups is to ensure separation between them so that the actions taken with one group do not spill over to the other. That can be difficult to achieve in an online setting where customers may visit your website repeatedly, making it challenging to track which versions of the site they were exposed to. Separation can also be hard to achieve in traditional settings, where varying treatments across stores may lead to spillovers for customers who visit multiple stores. If you cannot achieve geographic separation, one solution may be to vary your actions over time. If there is concern that changes in underlying demand may confound the comparisons across time, consider repeating the different actions in multiple short time periods.

The second requirement is a feedback mechanism that allows you to observe how customers respond to different treatments. There are two types of feedback metrics: behavioral and perceptual. Behavioral metrics measure actions—ideally, actual purchases. However, even intermediate steps in the purchasing

## Idea in Brief

Companies today understand the power of analytics, but dissecting past data is a complicated task that few firms have the technical skills to master. Most companies will get more value from simple business experiments.

To grow profits, managers need to become adept at techniques used by lab scientists and medical researchers: They should establish control and treatment groups to test the effects of changes in price, promotion, or product variation. They should also grasp the opportunities provided by general changes in the business—like store openings—that constitute natural experiments in consumer behavior.

Creating a culture of experimentation requires companies to overcome internal political and organizational obstacles. And not every experiment will succeed. But over time, companies that embrace a test-and-learn approach are more apt to find the golden tickets that will drive growth.

**Much of what companies learn from mammoth experiments can be gleaned from smaller tests that involve fewer variables, saving resources for follow-up tests.**

process provide useful data, as Google's success illustrates. One reason Google is so valuable to advertisers is that it enables them to observe behavioral expressions of interest—such as clicking on ads. If Google could measure purchases rather than mere clicks, it would be even more valuable. Of course, Google and its competitors realize this and are actively exploring ways to measure the effects of advertising on purchasing decisions in online and traditional channels.

Perceptual measures indicate how customers think they will respond to your actions. This speculative form of feedback is most often obtained via surveys, focus groups, conjoint studies, and other traditional forms of market research. These measures are useful in diagnosing intermediate changes in customers' decision processes.

Given that the goal of most firms is to influence customers' behavior rather than just their perceptions, experiments that measure behavior provide a more direct link to profit, particularly when they measure purchasing behavior.

## Seven Rules for Running Experiments

As with many endeavors, the best experimentation programs start with the low-hanging fruit—experiments that are easy to implement and yield quick, clear insights. A company takes an action—such as raising or lowering a price or sending out a direct-mail offer—and observes customers' reactions.

You can identify opportunities for quick-hit experiments at your company using these criteria.

1. **Focus on individuals and think short term.** The most accurate experiments involve actions to individual customers, rather than segments or geographies, and observations of their responses. The tests measure purchasing behavior (rather than perceptions) and reveal whether changes lead to higher profits. Focus your experiments on settings in which customers respond immediately. When UBS was considering how to use experiments to improve its wealth management business, it recognized that the place to start was customer acquisition, not improving lifetime customer value. The effects of experiments on customer acquisitions can be measured immediately, while the impact on customer lifetime value could take 25 years to assess.
2. **Keep it simple.** Look for experiments that are easy to execute using existing resources and staff. When a bank wanted to run a customer experiment, it didn't start with actions that required retraining of retail tellers. Instead, it focused on actions that could be automated through the bank's information systems. Experiments that require extensive manipulation of store layout, product offerings, or employee responsibilities may be prohibitively costly. We know one retailer that ran a pricing experiment involving thousands of items across a large number of stores—a labor-intensive action that cost more than $1 million. Much of what the retailer learned from that mammoth experiment could have been gleaned from a smaller test that used fewer stores and fewer products and preserved resources for follow-up tests.
3. **Start with a proof-of-concept test.** In academic experiments, researchers change one variable at a time so that they know what caused the outcome. In a business setting, it's important to first establish proof of concept. Change as many variables in whatever combination you believe is most likely to get the result you want. When a chain of convenience stores wanted to test the best way to shift demand from national brands to its private-label brands, it increased the prices of the national brands and decreased the private-label brand prices. Once it established that shifting demand was feasible, the retailer then refined its strategy by varying each of the prices individually.
4. **When the results come in, slice the data.** When customers are randomly assigned to treatment and control groups, and there are many customers in each group, then you may effectively have multiple experiments to analyze. For example, if your sample includes both men and women, you can evaluate the outcome with men and women separately. Most actions affect some customers more than others. So when the data arrive, look for subgroups within your control and treatment groups. If you examine only aggregate data, you may incorrectly conclude that there no effects on any customers. (See the exhibit "Slicing an Experiment.")

   The characteristics that you use to group customers, such as gender or historical purchasing patterns, must be independent of the action itself. For example, if you want to analyze how a store opening affects catalog demand, you cannot simply compare customers who made a purchase at the store with customers who did not. The results will reflect existing customer differences rather than the impact of opening the store. Consider instead comparing purchases by customers who live close to the new store versus customers who live far away. As long as the two groups are roughly equivalent, the differences in their behavior can be attributed to the store opening.
5. **Try out-of-the-box thinking.** A common mistake companies make is running experiments that only incrementally adjust current policies. For example, IBM may experiment with sales revenues by varying the wholesale prices that it offers to resellers. However, it may be more profitable to experiment with completely different sales approaches—perhaps involving exclusive territories or cooperative advertising programs. If you never engage in "what-if" thinking, your experiments are

## How One Retailer Tested Its Discount Strategy

Walk into any large retail store, and you'll find price promotions being offered on big national brands—discounts that are funded by the manufacturer. For retailers, these promotions can be a mixed bag: Although the lower prices may increase sales of the item, the promotion may hurt sales of competing private-label products, which offer higher margins. We worked with one national retailer that decided to conduct experiments to determine how it might shield its private-label market share by promoting these products while the national brands were on sale.

The retailer designed six experimental conditions—a control and five discount levels that ranged from zero to 35 percent for the private-label items. The retailer divided its stores into six groups, and the treatments were randomized across the groups. This meant each store had a mixture of the experimental conditions distributed across the different products in the study. For example, in Store A private-label sugar was discounted 20 percent, and private-label mascara was full price, whereas in Store B mascara was discounted, but sugar was not. This experimental design allowed the retailer to control for variations in sales that occurred because the store groups were not identical.

The test revealed that matching the national brand promotions with moderate discounts on the private-label products generated 10 percent more profits than not promoting the private-label items. As a result, the retailer now automatically discounts private-label items when the competing national brands are under promotion. After establishing proof of concept, it refined its shielding policies by testing responses to various types of national brand promotions. For example, it discovered that a "Buy One, Get One for 50 percent Off" promotion on a national brand should also be matched with the same offer on the private label, rather than just a straight discount.

These experiments were successful for two main reasons: The actions were easy to implement, and the results were easy to measure. Each set of experiments lasted just one week. There were few enough products involved that stores did not require any additional labor. The experiments piggybacked on the standard procedures for promoting an item—indeed, the store employees were unaware that they were helping to implement an experiment.

In previous experiments the retailer had learned that if it changed too many things at once, the stores could not handle the implementation without long delays and a lot of additional cost. In some cases temporary labor had to be trained to go into the stores, find the products, and change the prices and shelf signage. Moreover, if the experiment extended beyond a week, problems arose as shelves were constantly rearranged and new signs applied. A maintenance program was required to monitor store compliance. In effect the retailer experimented on experimentation itself—it learned how to design studies that it could analyze more quickly and implement more easily.

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unlikely to yield breakthrough improvements. A good illustration is provided by Tesco, the UK supermarket chain. It reportedly discovered that it was profitable to send coupons for organic food to customers who bought wild birdseed. This is out-of-the-box thinking. Tesco allows relatively junior analysts at its corporate headquarters to conduct experiments on small numbers of customers. These employees deliver something that the senior managers generally don't: a steady stream of creative new ideas that are relevant to younger customers.

6. **Measure everything that matters.** A caution about feedback measures: They must capture all the relevant effects. A large national apparel retailer recently conducted a large-scale test to decide how often to mail catalogs and other promotions to different groups of customers. Some customers received 17 catalogs over nine months, whereas another randomly selected group received 12 catalogs over the same time period. The retailer discovered that for its best customers the additional catalogs increased sales during the test period, but lowered sales in subsequent months. When the retailer compared sales across its channels, it found that its best customers purchased more often through the catalog channel (via mail and telephone) but less from its online stores. When the firm aggregated sales across the different time periods and across its retail channels, it concluded that it could mail a lot less frequently to its best customers without sacrificing sales. Viewing results in context is critical whenever actions in one channel affect sales in other channels or when short-term actions can lead to long-run outcomes. This is the reason that we recommend starting with actions that have only short-run outcomes, such as actions that drive customer acquisition.
7. **Look for natural experiments.** The Norwegian economist Trygve Haavelmo, who won the 1989 Nobel Prize, observed that there are two types of experiments: "those we should like to make" and "the stream of experiments that nature is steadily turning out from her own enormous laboratory, and which we merely watch as passive observers." If firms can recognize when natural experiments occur, they can learn from them at little or no additional expense. For example, when an apparel retailer opened its first store in a state, it was required by law to start charging sales tax on online and catalog orders shipped to that state, whereas previously those purchases had been tax-free. This provided an opportunity to discover how sales taxes affected online and catalog demand. The retailer compared online and catalog sales before and after the store opening for customers who lived on either side of the state's southern border, which was a long way from the new

## Slicing an Experiment

When you're conducting an experiment, it's important to remember that initial results may be deceiving. Consider a publishing company that tried to assess how discounts affect customers' future shopping behavior. It mailed a control group of customers a catalog containing a shallow discount—its standard practice. The treatment group of customers received catalogs with deep discounts on certain items. For two years, the company tracked purchases at an aggregate level, and the difference between the two groups was negligible:

| ALL CUSTOMERS | PER CUSTOMER |
|---|---|
| Customers who received the catalog with shallow discounts spent: | **$159** CONTROL |
| Customers who received the catalog with deep discounts spent: | **$157** TEST |
| | **$(2)** CHANGE |

But that view of the data did not tell the whole story. Further analysis revealed a disturbing outcome among customers who had recently purchased a high-priced item and then received a catalog offering the same item at a 70 percent discount. Apparently upset by this perceived overcharge, these customers (some of them long-standing ones) cut future spending by 18 percent:

| CUSTOMERS WHO RECENTLY BOUGHT A HIGH-PRICED ITEM | PER CUSTOMER |
|---|---|
| Customers who received the catalog with shallow discounts spent: | **$506** CONTROL |
| Customers who received the catalog with deep discounts spent: | **$415** TEST |
| | **$(91)** CHANGE |

Upon learning these results, the publishing firm modified its direct-mail approach to avoid inadvertently antagonizing its best customers.

store. None of the customers were likely to shop in the new store, so its opening would have no effect on demand—the only change was the taxation of online and catalog purchases, which affected consumers only on one side of the border. The comparison revealed that the introduction of sales taxes led to a large drop in online sales but had essentially no impact on catalog demand.

The key to identifying and analyzing natural experiments is to find treatment and control groups that were created by some outside factor, not specifically gathered for an experiment. Geographic segmentation is one common approach for natural experiments, but it will not always be a distinguishing characteristic. For example, when GM, Ford, and Chrysler offered the public the opportunity to purchase new cars at employee discount levels, there was no natural geographic separation—all customers were offered the deal. Instead, to evaluate the outcome of these promotions, researchers compared transactions in the weeks immediately before and after the promotions were introduced. Interestingly, they discovered that the jump in sales levels was accompanied by a sharp increase in prices. Customers thought they were getting a good deal, but in reality prices on many models were actually lower before the promotion than with the employee discount prices. Customers responded to the promotion itself rather than to the actual prices, with the result that many customers were happy with the deal, even though they were paying higher prices.

## Avoid Obstacles

Companies that want to tap into the power of experimentation need to be aware of the obstacles—both external and internal ones. In some cases, there are legal obstacles: Firms must be careful when charging different prices to distributors and retailers, particularly firms competing with one another. Although there are fewer legal ramifications when charging consumers different prices (the person sitting next to you on your airline flight has usually paid more or less than you), the threat of an adverse consumer reaction is a sufficient deterrent for some firms. No one likes to be treated less favorably than others. This is particularly true when it comes to prices, and the widespread availability of price information online means that variations are often easily discovered.

The internal obstacles to experimentation are often larger than the external barriers. In an organization with a culture of decision making by intuition, shifting to an experimentation culture requires a fundamental change in management outlook. Management-by-intuition is often rooted in an individual's desire to make decisions quickly and a culture that frowns upon failure. In contrast, experimentation requires a more measured decision-making style and a willingness to try many approaches, some of which will not succeed.

Some companies mistakenly believe that the only useful experiments are successful ones. But the goal is not to conduct perfect experiments; rather, the goal is to learn and make better decisions than you are making right now. Without experimentation, managers generally base decisions on gut instinct. What's surprising is not just how bad those decisions typically are, but how good managers feel about them. They shouldn't—there's usually a lot of room for improvement. Organizations that cultivate a culture of experimentation are often led by senior managers who have a clear understanding of the opportunities and include experimentation as a strategic goal of the firm. This is true of Gary Loveman, the CEO of Harrah's, now called Caesars Entertainment, who transformed the culture of a 35,000-employee organization to eventually enshrine experimentation as a core value. He invested in the people and infrastructure required to support experimentation and also enforced a governance mechanism that rewarded this approach. Decisions based solely upon intuition were censured, even if the hunch was subsequently proved correct.

**The goal is not to conduct perfect experiments; it is to make better decisions.**

There is generally a practical limit on the number of experiments managers can run. Because of that, analytics can play an important role, even at companies in which experiments drive decision making. When Capital One solicits new cardholders by mail, it can run thousands of experiments; there's no need to pretest the experiments by analyzing historical data. But other companies' business models may allow for only a few experiments; in such cases, managers should carefully plan and pretest experiments using analytics. For example, conducting experiments in channel settings is difficult because changes involve confrontation and disruption of existing relationships. This means that most firms will be limited in how many channel experiments they can run. In these situations, analyzing historic data, including competitors' actions and outcomes in related industries, can offer valuable initial insights that help focus your experiments.

Whether the experiments are small or large, natural or created, your goal as a manager is the same: to shift your organization from a culture of decision making by intuition to one of experimentation. Intuition will continue to serve an important role in innovation. However, it must be validated through experimentation before ideas see widespread implementation. In the long run, companies that truly embrace this data-driven approach will be able to delegate authority to run small-scale experiments to even low levels of management. This will encourage the out-of-the-box innovations that lead to real transformation.

## Critical Thinking

1. List and summarize the seven rules for running experiments proposed in this article.
2. Discuss the example—provided in the article—of the retailer that conducted experiments on promotion and pricing. Suggest similar examples of other retailers that utilize experimentation as a basis for decision-making.
3. With a small group of peers from your class, debate the following paragraph from the article: "your goal as a manager is . . . to shift your organization from a culture of decision making by intuition to one of experimentation. Intuition will continue to serve an important role in innovation. However, it must be validated through experimentation before ideas see widespread implementation."

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# Know What Your Customers Want before They Do

## Retailers need to target customers with the right deal at the right time. Here's how to nail the "next best offer."

THOMAS H. DAVENPORT, LEANDRO DALLE MULE, AND JOHN LUCKER

Shoppers once relied on a familiar salesperson—such as the proprietor of their neighborhood general store—to help them find just what they wanted. Drawing on what he knew or could quickly deduce about the customer, he would locate the perfect product and, often, suggest additional items the customer hadn't even thought of. It's a quaint scenario. Today's distracted consumers, bombarded with information and options, often struggle to find the products or services that will best meet their needs. The shorthanded and often poorly informed floor staff at many retailing sites can't begin to replicate the personal touch that shoppers once depended on—and consumers are still largely on their own when they shop online.

This sorry state of affairs is changing. Advances in information technology, data gathering, and analytics are making it possible to deliver something like—or perhaps even better than—the proprietor's advice. Using increasingly granular data, from detailed demographics and psychographics to consumers' clickstreams on the web, businesses are starting to create highly customized offers that steer consumers to the "right" merchandise or services—at the right moment, at the right price, and in the right channel. These are called "next best offers." Consider Microsoft's success with e-mail offers for its search engine Bing. Those e-mails are tailored to the recipient at the moment they're opened. In 200 milliseconds—a lag imperceptible to the recipient—advanced analytics software assembles an offer based on real-time information about him or her: data including location, age, gender, and online activity both historical and immediately preceding, along with the most recent responses of other customers. These ads have lifted conversion rates by as much as 70 percent—dramatically more than similar but uncustomized marketing efforts.

The technologies and strategies for crafting next best offers are evolving, but businesses that wait to exploit them will see their customers defect to competitors that take the lead. Microsoft is just one example; other companies, too, are revealing the business potential of well-crafted NBOs. But in our research on NBO strategies in dozens of retail, software, financial services, and other companies, which included interviews with executives at 15 firms in the vanguard, we found that if NBOs are done at all, they're often done poorly. Most are indiscriminate or ill-targeted—pitches to customers who have already bought the offering, for example. One retail bank discovered that its NBOs were more likely to create ill will than to increase sales.

Companies can pursue myriad good goals using customer analytics, but NBO programs provide perhaps the greatest value in terms of both potential ROI and enhanced competitiveness. In this article we provide a framework for crafting NBOs. You may not be able to undertake all the steps right away, but progress on each will be necessary at some point to improve your offers.

## Define Objectives

Many organizations flounder in their NBO efforts not because they lack analytics capability but because they lack clear objectives. So the first question is, What do you want to achieve? Increased revenues? Increased customer loyalty? A greater share of wallet? New customers?

The UK-based retailer Tesco has focused its NBO strategy on increasing sales to regular customers and enhancing loyalty with targeted coupon offers delivered through its Clubcard program. As Roland Rust and colleagues have described ("Rethinking Marketing," HBR January-February 2010), Tesco uses Clubcard to track which stores customers visit, what they buy, and how they pay. This has enabled the retailer to adjust merchandise for local tastes and to customize offerings at the individual level across a variety of store formats, from hypermarts to neighborhood shops. For example, Clubcard shoppers who buy diapers for the first time at a Tesco store are mailed coupons not only for baby wipes and toys but also for beer. (Data analysis revealed that new fathers tend to buy more beer because they are spending less time at the pub.) More recently, Tesco has experimented with "flash sales" that as much as triple the redemption value of certain Clubcard coupons—in

## What Makes an NBO?

"Next best offer" is increasingly used to refer to a proposal customized on the basis of

- THE CONSUMER'S ATTRIBUTES AND BEHAVIORS
  (demographics, shopping history)
- THE PURCHASE CONTEXT
  (bricks and mortar, online)
- PRODUCT OR SERVICE CHARACTERISTICS
  (shoe style, type of mortgage)
- THE ORGANIZATION'S STRATEGIC GOALS
  (increase sales, build customer loyalty)

NBOs are most often designed to inspire a purchase, drive loyalty, or both. They can consist of

- PRODUCTS
  (a coupon for diapers)
- SERVICES
  (a discount on a spa visit)
- INFORMATION
  (Google ads to click on)
- RELATIONSHIPS
  (LinkedIn and Facebook recommendations)

Despite the name, an NBO may in fact be an initial engagement. And whether the customer relationship is new or ongoing, the NBO is intended to be a "best offer."

essence making its best offer even better for selected customers. A countdown mechanism shows how quickly time or products are running out, building tension and driving responses. Some of these offers have sold out in 90 minutes.

Tesco's NBO strategy seeks to expand the range of customers' purchases, but it also targets regular customers with deals on products they usually buy. As a result of its carefully crafted, creatively executed offers, Tesco and its in-house consultant dunnhumby achieve redemption rates ranging from 8 percent to 14 percent—far higher than the 1 percent or 2 percent seen elsewhere in the grocery industry. Microsoft had a very different set of objectives for its Bing NBO: getting new customers to try the service, download it to their smartphones, install the Bing search bar in their browsers, and make it their default search engine.

Starting with a clear objective is essential. So is being flexible about modifying it as needed. The low-cost DVD rental company Redbox initially made e-mail and internet coupon site offers intended to familiarize consumers with its kiosks. Redbox kiosks were a new retail concept, but in time people became accustomed to automated movie rentals. As the business grew, the company's executives realized that to increase profits while maintaining the low-cost model, they needed to persuade customers to rent more than one DVD per visit. So they shifted the emphasis of their NBO strategy from attracting new customers to discounting multiple rentals.

## Gather Data

To create an effective NBO, you must collect and integrate detailed data about your customers, your offerings, and the circumstances in which purchases are made.

### *Know Your Customers*

Information valuable for tailoring NBOs can be relatively basic and easily acquired or derived: age, gender, number of children, residential address, income or assets, and psychographic lifestyle and behavior data. Previous purchases are often the single best guide to what a customer will buy next, but that information may be harder to capture, particularly from offline channels. Loyalty programs like Tesco's can be a powerful tool for tracking consumers' buying patterns.

Even as companies work (and sometimes struggle) to acquire these familiar kinds of customer data, the growing availability of social, mobile, and location (SoMoLo) information creates major new data sets to be mined. Companies are beginning to craft offers based on where a customer is at any given moment, what his social media posts say about his interests, and even what his friends are buying or discussing online.

One example is Foursquare, which makes customized offers according to how many times consumers have "checked in" to a certain retail store. Another is Walmart, which acquired the social media technology start-up Kosmix to join its newly formed digital strategy unit, @WalmartLabs, in capitalizing on consumer SoMoLo data for its offers. Among the unit's projects is finding ways to predict shoppers' Walmart.com purchases on the basis of their social media interests. Walmart is also looking into location-based technologies that will help customers find products in its cavernous stores. The apparel retailer H&M has partnered with the online game MyTown to gather and use information on customer location. If potential

## Idea in Brief

Targeting individuals with perfectly customized offers at the right moment across the right channel is marketing's holy grail. As companies' ability to capture and analyze highly granular customer data improves, such offers are possible—yet most companies make them poorly, if at all.

Perfecting these "next best offers" (NBOs) involves four steps: defining objectives; gathering data about your customers, your offerings, and the contexts in which customers buy; using data analytics and business rules to devise and execute offers; and, finally, applying lessons learned.

It's hard to perfect all four steps at once, but progress on each is essential to competitiveness. As the amount of data that can be captured grows and the number of channels for interaction proliferates, companies that are not rapidly improving their offers will only fall further behind.

customers are playing the game on a mobile device near an H&M store and check in, H&M rewards them with virtual clothing and points; if they scan promoted products in the store, it enters them in a sweepstakes. Early results show that of 700,000 customers who checked in online, 300,000 went into the store and scanned an item.

Many retailers focus on how to use customers' location information in real time; where the customers have been can also reveal a lot about them. In the United States alone, mobile devices send about 600 billion geospatially tagged data feeds back to telecommunications providers every day. An application developed by the software analytics company Sense Networks can compare a consumer's movements with billions of data points on the movements and attributes of others. Using this location history, it can estimate the consumer's age, travel style, level of wealth, and next likely location, among other things. The implications for creating highly customized NBOs are clear.

## *Know Your Offerings*

Unless a company has detailed information about its own products or services, it will have trouble determining which offerings might appeal most to a customer. For some products, such as movies, third-party databases supply product attributes, and companies that rent or sell movies can surmise that if you liked one movie with a particular actor or plot type, you will probably like another. But in other retail industries, such as apparel and groceries, compiling product attributes is much more difficult. Manufacturers don't uniformly classify a sweater as "fashion forward" or "traditional," for example. They don't even have clear and standardized color categories. So retailers must spend a lot of time and effort capturing product attributes on their own. Zappos has three departments working to optimize customers' searches and create the most effective offers for its shoes. Even when the attributes are narrowed down to product type, style, color, brand, and price, a shoe might have any of more than 40 material patterns—pearlized, patchwork, pebbled, pinstripe, paisley, polka dot, or plaid, to name just those beginning with "p." Without a system for such detailed classification of product attributes, Zappos wouldn't know that a customer had often bought paisley in the past, so it wouldn't know that it should include paisley products in NBOs to that customer.

Similarly, without good classification systems, grocers can't easily determine what products will lure adventurous, health-conscious, or penny-pinching customers. When Tesco wants to identify products that appeal to adventurous palates, it will start with something that is widely agreed to be a daring choice in a given country—Thai green curry paste in the UK, perhaps—and then analyze the other purchases that buyers of the daring choice make. If customers who buy curry paste also frequently buy squid or wild rocket (arugula) pesto, these products have a high relationship coefficient.

## *Know the Purchase Context*

Finally, NBOs must take into account factors such as the channel through which a customer is making contact with a business (face-to-face, on the phone, by e-mail, on the web), the reason for contact and its circumstances, and even voice volume and pitch, indicating whether the customer is calm or upset. (Emotion-detection software is proving valuable for the last factor.) Bank of America has learned that mortgage offers presented through an ATM at the moment of customer contact don't work well because customers have neither the time nor the inclination to engage with them, whereas they might be receptive to the same offers during a walk-in. Likewise, someone who calls customer service with a complaint is unlikely to respond to a product offer, though he or she might welcome it by e-mail at another time.

Other contextual factors that may affect the design of an NBO—and a consumer's response to it—include the weather, the time of day or the day of the week, and whether a customer is alone or accompanied. Although clickstream or recent online purchase data are often the most relevant in guiding an online NBO strategy, in some cases, such as air-travel ticket pricing, time and day are important: Airlines can hike prices on a Sunday evening, because more people search then than, say, midday during the week. A Chinese shoe retailer we studied is testing offers that target primary buyers' companions. When a woman walks into one of its stores with her husband, she is usually the primary buyer, and the retailer's NBO is usually a relatively inexpensive item for the husband. The choice of what to offer him arises from the insight that men who accompany their wives shopping but are not actively shopping themselves are more price sensitive than solo husbands who are searching for a specific product.

### Building the Next Best Offer

Exemplary companies build or sharpen an NBO strategy through four broad activities:

1. **Defining Objectives** Craft NBOs to achieve specific goals, such as attracting new customers or increasing sales, loyalty, or share of wallet. Be ready to modify your objectives to exploit changing circumstances.
2. **Gathering Data** Collect detailed data about customers (demographics and psycho-graphics; purchase history; social, mobile, and location information), your offerings (product attributes, profitability, availability), and purchase context (customer's contact channel, proximity, the time of day or week).
3. **Analyzing and Executing** Use statistical analysis, predictive modeling, and other tools to match customers and offers. Use business rules to guide what offers are made under what circumstances. Carefully match offers and channels. Make offers sparingly, time them deliberately, and monitor contact frequency.
4. **Learning and Evolving** Think of every offer as a test. Incorporate data on customers' responses in follow-on offers. Formulate rules of thumb for designing new offers that are based on the performance of previous ones.

**The weather, the time of day or day of the week, and whether or not a customer is accompanied may affect the design of an offer.**

Of course, countless other contextual factors depend on the nature of the business and its customers.

## Analyze and Execute

The earliest predictive NBOs were created by Amazon and other online companies that developed "people who bought this also bought that" offers based on relatively simple cross-purchase correlations; they didn't depend on substantial knowledge of the customer or product attributes, and thus were rather a blunt instrument. Somewhat more targeted offers are based on a customer's own past purchase behavior, but even those are famously indiscriminate. If you buy a book or a CD for a friend who doesn't share your tastes, that can easily skew the future offers you receive.

Companies that have systematically gathered information about their customers, product attributes, and purchase contexts can make much more sophisticated and effective offers. Statistical analysis and predictive modeling can create a treasure trove of synthetic data from these raw information sources to, for example, gauge a customer's likelihood of responding to a discounted cross-sell offer delivered on her mobile device. Behavioral segmentation and other advanced data analytics that simultaneously account for customer demographics, attitudes, buying patterns, and related factors can help identify those customers who are most likely to defect. Armed with this information and a customer's expected customer lifetime value, an organization can determine whether its NBO to that customer should encourage or discourage defection. (A detailed discussion of marketing data analytics is beyond the scope of this article, but the 2002 book *Marketing Engineering*, by Gary L. Lilien and Arvind Rangaswamy, offers a robust overview of key analytical, quantitative, and computer modeling techniques.)

Although such analytics can yield a profusion of potentially effective offers, business rules govern the next step. When an analysis shows that a customer is equally likely to purchase any of several products, a rule might determine which offer is made. Or it might limit the overall contact frequency for a customer if analyses have shown that too much contact reduces response rates. These rules tend to go beyond the logic of predictive models to serve broad strategic goals—such as putting increasing customer loyalty above maximizing purchases.

A carefully crafted NBO is only as good as its delivery. Put another way, a brilliant e-mail NBO that never gets opened might as well not exist. Should the NBO be delivered face-to-face? Presented at an in-store kiosk? Sent to a mobile device? Printed on a register receipt? Often the answer is relatively straightforward: The channel through which the customer made contact is the appropriate channel for delivering the NBO. For example, a CVS customer who scans her ExtraCare loyalty card at an in-store kiosk can instantly receive customized coupons.

There are times, however, when the inbound and outbound channels should differ. A complex offer shouldn't be delivered through a simple channel. Recall Bank of America's experience with mortgage offers: The inbound channel—the ATM—was quickly found to be a poor outbound channel, because mortgages are just too complicated for that setting. Similarly, many call-center reps don't understand customer needs and product details well enough to make effective offers—particularly when the reps' primary purpose is to complete simple sales or service transactions.

Companies often test offers through multiple channels to find the most efficient one. At CVS, ExtraCare offers are delivered not only through kiosks but also on register receipts, by e-mail and targeted circulars, and, recently, via coupons sent directly to customers' mobile phones. Qdoba Mexican Grill, a quick-serve franchise, is expanding its loyalty program by delivering coupons to customers' smart-phones at certain times of the day or week to increase sales and smooth demand. Late-night campaigns near universities have seen a nearly 40 percent redemption rate, whereas redemption rates average 16 percent for Qdoba's overall program. Starbucks uses at least 10 online channels to deliver targeted offers, gauge customer satisfaction and reaction, develop products, and enhance brand advocacy. For example, its smartphone app allows customers to receive tailored promotions for food, drinks, and merchandise based on their SoLoMo information.

**Upscale retailers and financial services firms find that a human being is often the best channel for delivering offers.**

Nordstrom and other upscale retailers, and financial services firms with wealthy clients, invest heavily in their salespeople's product knowledge and ability to understand customers' needs and build relationships. For these businesses, a human being is often the best channel for delivering offers. Many organizations devise multiple offers and sort them according to predictive models that rank a customer's propensity to accept them on the basis of previous purchases or other data. Salespeople or customer service reps can select from among these offers in real time, guided by their dialogue with the customer, the customer's perceived appetite for a given offer, and even the comfort level between the customer and the salesperson. Combining human judgment with predictive models can be more effective than simply following a model's recommendations. For example, insisting that a rep deliver a specific offer in every case may actually reduce both customers' likelihood of accepting the offer and their postpurchase satisfaction. The investment firm T. Rowe Price provides call-center representatives with targeted offers, but it has concluded that if a rep delivers the offers in more than 50 percent of interactions, he or she probably isn't tuning in to customers' needs.

## Learn and Evolve

Creating NBOs is an inexact but constantly improving science. Like any science, it requires experimentation. Some offers will work better than others; companies must measure the performance of each and apply the resulting lessons. As one CVS executive said to us, "Think of every offer as a test."

Companies can develop rules of thumb from their NBOs' performance to guide the creation of future offers—until new data require a modification of the rules. These rules will differ from one company to the next. In our research we identified some that leading companies use:

- **Footlocker:** Promote only fashion-forward shoes through social media.
- **CVS:** Provide discounts on things a customer has bought previously.
- **Sam's Club:** Provide individually relevant offers for categories in which a customer has not yet purchased, and reward customer loyalty.
- **Nordstrom:** Provide offers through sales associates in face-to-face customer interactions.

Rules of thumb should be derived from data-driven and fact-based analyses, not convention or lore. The rules above have been tested, but they will need to be challenged and retested over time to ensure continued effectiveness.

Meanwhile, legal, ethical, and regulatory issues associated with NBO strategies are evolving fast, as the collection and use of customer data become increasingly sophisticated. When companies enthusiastically experiment with NBOs, they should be wary of unwittingly crossing legal or ethical boundaries.

It would be hard for any company to incorporate every possible customer, product, and context variable into an NBO model, but no retailer should fail to gather basic demographics, psychographics, and customer purchase histories. Most retailers need to accelerate their work in this area: Their customers are not impressed by the quality or the value of offers thus far. Variables and available delivery channels will only grow in number; companies that aren't rapidly improving their offers will just fall further behind.

## Critical Thinking

1. Explain the concept of "Next Best Offer" (NBO) as defined by the authors.
2. List and summarize the steps in the framework for crafting NBOs proposed in the article.

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# Respect Your Elders

**Digital marketing techniques might be flashy and young, but conventional marketing strategies haven't lost their impact. The ideal modern marketing mix makes room for both.**

TOM STEIN AND TIM DEVANEY

Once the cool but unnecessary add-on to most companies' marketing strategies, digital marketing now leads the charge, and offline strategies, tactics and channels often complement marketers' increasingly Web- and mobile-focused efforts. The tide has officially turned, and if you're not incorporating blogs, social networks, search advertising, QR codes, geo-targeted promotions and the like into your marketing strategy, you're unapologetically behind the times and at risk of generating ineffective marketing initiatives—or so it would seem.

As the American Marketing Association and countless trade groups and business publications the world over have reported, all companies should at least have an online presence and invest in regular search marketing and social marketing efforts, but the demise of conventional, offline marketing strategies and tactics has been greatly exaggerated. Traditional techniques such as print advertising and direct mail still work—and work well—and many successful marketing strategies today have found the right balance between those traditional techniques and their flashier digital counterparts.

## Face Time Beats Facebook

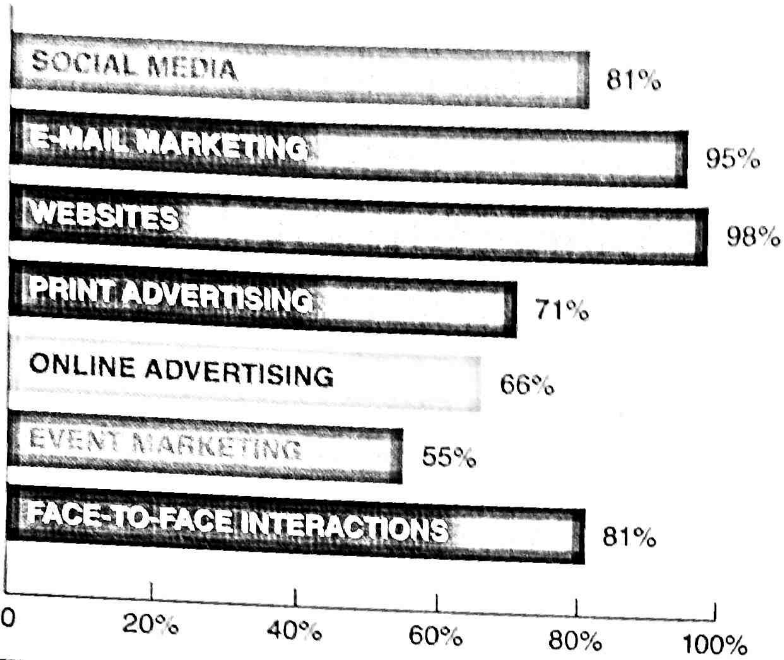
A November 2011 survey by Constant Contact Inc., a Waltham, Mass.-based firm that specializes in helping small businesses with their e-mail marketing, online surveys and events, shows that while most small businesses now market online and many are embracing social media, they also remain committed to more conventional methods. Eighty-one percent of small-business executives who responded to the survey said that they use Facebook and other social sites for marketing, and the same percentage reported that they also use good, old-fashioned face time. And while 66 percent invest in online advertising, 71 percent still invest in print ads.

Meanwhile, on the receiving end, customers say that social media is one of the least effective ways for a business to gain their loyalty, according to a November 2011 survey by Stamford, Conn.-based customer communications management firm Pitney Bowes Inc. that polled customers in the United States and United Kingdom. Just 18 percent of survey respondents said that interaction with a business via Facebook, Twitter or some other social network would make them more likely to buy from the business again, and for small businesses, that number drops to 15 percent. The most effective ways to engender customer loyalty, according to the survey, are offering customers home delivery options and arming them with the ability to choose which communication channel through which they'd prefer to connect with your company.

## In with the Old

Old-school methods are still a vital tool in marketers' kits—and might be even more effective now. Mike Sprouse, president and CEO of Sprouse Marketing Group, a full-service firm with clients such as Salesforce.com and Yahoo, and author of *The Greatness Gap,* says that if the herd is zigging to social marketing, savvy businesses should zag toward traditional media such as TV and print. "If 95 percent of marketers go one way, I want to be among the 5 percent going the other," he says. "Mail volume is down, but people still get—and open—mail, so why wouldn't I want to have my mail piece in someone's mailbox with, say, three other pieces, as opposed to years ago when it was with 10 other pieces? The old-school channels haven't disappeared; they're just not in vogue. But smart marketers know how to leverage that."

David Langton, principal and co-founder of New York-based communications design firm Langton Cherubino Group Ltd. and co-author of *Visual Marketing: 99 Proven Ways for Small Businesses to Market with Images and Design,* says that there's a story in his book about a building contractor who mailed postcards of his work to a list of prospects. Years later, his card was still generating new business. "People held onto that postcard," Langton says. "They put it on the fridge or stuck it in a book. Traditional marketing has stronger staying power than the ephemeral digital work we're bombarded with. It's easier to keep a postcard and view it multiple times than the e-mails and banner ads we swat away every day."




**The modern marketing mix.** Percentage of respondents who report using the tactic/channel

Source: The Fall 2011 Attitudes and Outlook Survey by Constant Contact Inc. polled 1,972 mostly United States-based respondents across a range of small businesses in both business-to-business and business-to-consumer industries.

In fact, one survey found that consumers consider online advertising to be twice as annoying as offline ads. In a survey for the 2010 digital marketing show ad:tech London, respondents called traditional advertising more informative, entertaining and necessary than online, with 69 percent saying that traditional advertising was relevant to them, compared with just 45 percent for online.

## It's All about Balance

Of course, any business that relies too heavily on old-school marketing tactics risks looking, well, old-school. Coupled with the fact that online marketing has proven to be effective, this means that marketers should find a balance between new and old.

Most small businesses know this. The aforementioned survey by Constant Contact reports that 65 percent of small businesses use social media tools in conjunction with other forms of marketing. Offline campaigns that might otherwise look stodgy—a door hanger, a windshield flyer—can be energized with a QR code and URLs for your Facebook and Twitter accounts. Word of mouth, widely considered to be the most powerful form of advertising, gets a digital boost when satisfied customers share their experiences online in consumer-generated reviews and blog posts.

Even some businesses that operate entirely online are rediscovering the power of offline marketing. Fan Bi, co-founder of Blank Label, a Boston-based e-commerce retailer that lets customers design their own dress shirts, says that his company tried Facebook—and he wasn't impressed.

"We spent an hour a day thinking up engaging messages to post on our page," he says. "We were getting thousands of likes, but we weren't really seeing any customers come through Facebook."

Traditional marketing tactics have been much more effective, Bi says. He and his partners call and write to reporters and editors to pitch their story directly, and Blank Label has so far been featured in *The New York Times, Bloomberg Businessweek, Fast Company* and *Forbes*. Each time a story has run in a print publication, Blank Label has experienced a jump in sales.

"It's funny," Bi says. "Most people think old-school marketing is dying and social media is the wave of the future. In reality, without old-fashioned media relations and PR, we'd never have been able to grow our business so quickly."

## Critical Thinking

1. The United States Baby Boomer cohort is significant in size and purchasing power. With a small group of peers, conduct some research on baby boomers and generate a profile of this cohort.
2. Summarize the article's main premise in regards to digital marketing techniques.

**Tom Stein** and **Tim Devaney** are freelance writers based in Palo Alto, Calif.

# Marketing to Kids Gets More Savvy with New Technologies

## Ads come in tricky, fun-loving new forms.

BRUCE HOROVITZ

Isabella Sweet doesn't wear a target on her chest. But kid marketers covet this 9 year old as if she does. Perhaps it's because she's a techie. The fourth grader from Davis, Calif., spends almost an hour a day on the Webkinz website. The site charms kids by linking Webkinz plush animals—of which she owns 18—with online games that encourage kids to earn and spend virtual money so they can create elaborate rooms for virtual versions of their Webkinz pets.

The site does one more thing. It posts ads that reward kids with virtual currency when they click. Every time a kid clicks on an ad, there's a virtual ka-ching at the other end for Ganz, which owns Webkinz.

At issue: With the use of new, kid enchanting technologies, are savvy marketers gaining the upper hand on parents? Are toy marketers such as Ganz, food marketers such as McDonald's and kid-coddling apparel retailers such as 77kids by American Eagle too eager to target kids?

At stake: $1.12 trillion. That's the amount that kids influenced last year in overall family spending, says James McNeal, a kid marketing consultant and author of *Kids as Consumers: A Handbook of Marketing to Children*. "Up to age 16, kids are determining most expenditures in the household," he says. "This is very attractive to marketers."

It used to be so simple. A well placed TV spot on a Saturday-morning cartoon show or a kid friendly image on a cereal box was all it took. No longer. The world of marketing to kids has grown extremely complex and tech heavy. Marketers that seek new ways to target kids are aware of new calls for federal action—including voluntary marketing guidelines that would affect food marketers. Kids, who are spending less time watching TV and more time on computers or smartphones, are becoming targets online.

"Marketers are getting more and more devious," says Susan Linn, director of Campaign for a Commercial-Free Childhood, a watchdog group. With the growing use of smartphones and social media, she says, "They have new avenues for targeting children" that parents might miss.

Even ad-savvy parents are sometimes unaware how marketers are reaching out to their children.

## Getting around Ad Blockers

While on the Webkinz site, Sweet recently clicked once a day for seven days on an ad for a film trailer that was posted for *Judy Moody and the NOT Bummer Summer*. She says that she wasn't really interested in the movie. But each day that she clicked it and answered three questions, she earned a virtual lime-green dresser and bulletin board for the rooms she created online for her Webkinz.

"I've got five dressers and seven bulletin boards," says the girl. "I don't have enough rooms to fit them all in."

This kind of marketing to kids drives Isabella's mother crazy. "They're doing this right under the noses of parents," says Elizabeth Sweet, a doctoral student at University of California-Davis doing her dissertation on the marketing of kids' toys. Even so, she says, she had no idea about the video ads on Webkinz until her daughter told her.

"This whole planting of movie videos in the online game experience is new to me," Sweet says. "What bothers me most is that when she first signed up for the site, I thought it was OK."

Sweet has an ad-blocker app on her browser. These movie ads are woven into the site content in such a way that her daughter sees—and responds to them—anyway, she says.

"We occasionally introduce limited-time promotions so that our Webkinz World members can enjoy fun, unique activities and events," says Susan McVeigh, a Ganz spokeswoman, in an e-mail.

But Elizabeth Sweet isn't the only parent who's unhappy with how and what Webkinz markets to kids.

Last month, Christina Cunningham, a full-time mother from Port St. Lucie, Fla., happened to look over as two of her daughters—ages 9 and 7—were signing onto the Webkinz website. On the log-in screen, an ad flashed for BabyPictureMaker.com, which nudges consumers to download pictures of two people—promising to send back a picture of what a baby they might have together would look like.

"This is not acceptable," says Cunningham, who shooed her kids away from the site and fired off an e-mail to Webkinz. When she didn't hear back, she sent another. Again, she says, she received no response. But McVeigh says Webkinz e-mailed Cunningham responses, twice. A frustrated Cunningham contacted Campaign for a Commercial-Free Childhood. The group contacted Webkinz, which removed the ad. "We will make sure to open an investigation into the matter and take the appropriate steps," spokeswoman McVeigh assured the group in a letter.

## The Fast-Food Connection

Webkinz declined to share the outcome of this investigation with *USA TODAY*—nor would it explain how the ad got on the site. "We're fully committed to a responsible approach regarding advertising and the advertisers we allow on the site," says McVeigh, in an e-mail.

But in the eyes of some parents, no one goes more over the top in marketing to kids than the big food sellers—particularly sellers of high-sugar cereals and high-fat, high-calorie fast food.

That's one reason the Obama administration is proposing that food-makers adopt voluntary limits on the way they market to kids.

These proposed voluntary guidelines, to be written by a team from four federal agencies, have set the food and ad industries howling—even before they've been completed.

"I can't imagine any mom in America who thinks stripping tigers and toucans off cereal boxes will do anything to address obesity," said Scott Faber, a spokesman for the Grocery Manufacturers Association, at a May hearing.

But Wayne Altman thinks the voluntary guidelines are critical.

He's a family physician in the Boston area who has three sons ages 13, 5 and 4. He's particularly concerned about Ronald McDonald. "We know that children under 8 have no ability to establish between truth and advertising," he says. "So, to have this clown get a new generation hooked on a bad product just isn't right."

Because of the obesity, heart disease and food-related illnesses fed partly by savvy food marketers such as McDonald's, Altman says, "We have a generation of children that is the first to have a life expectancy less than its parents."

Plenty of others think as Altman does, even though Ronald is regularly used to promote Ronald McDonald House Charities. Ronald also shows up in schools. He's got his own website, Ronald.com, where the clown promises that kids can "learn, play and create while having fun." And he's the focal point of a new social-media campaign that nudges kids to download their own photos with images of Ronald and share them with friends.

More than 1,000 doctors, including Altman, recently signed a petition that asked McDonald's to stop using Ronald to market to kids. "People have a right to sell and advertise," he says. "But where do we draw the line?"

McDonald's—which recently announced it will modify its Happy Meals in September by reducing the number of fries and adding apple slices—has no plans to dump Ronald. "Ronald McDonald is an ambassador for McDonald's and an ambassador for good," CEO Jim Skinner told shareholders in May at the company's annual meeting. "Ronald McDonald is going nowhere."

## 77kids Entertains Shoppers

But American Eagle is going somewhere. And if any retailer exemplifies the techie new world of marketing to kids, it may be 77kids by American Eagle.

The outside-the-box store that it just opened at New York's Times Square sells midpriced clothing targeting boys and girls from toddler to 12. But the heart of the target is the 10-year-old.

Getting a 10-year-old's attention is all about whiz-bang technology—like the chain's virtual ticket to rock stardom.

In the center of the Times Square store sits a "Be a Rock Star" photo booth. It's all about music and tech. The booth has a big-screen TV that shows a video of a rock band composed of 10- to 12-year-old kids singing *I Wanna Rock* by Twisted Sister. Any tween, with parental permission, can download his or her photo and substitute it on the screen for one of the rock stars.

"Our brand ideology is: Think like a mom, see like a kid," explains Betsy Schumacher, chief merchandising officer at 77kids. "It made sense to us to have technology in the store that speaks to a kid's experience—and how they play."

Each 77kids store also has two iPad-like touch-screens that allow kids to virtually try on most of the clothing in the store. Who needs a dressing room when you can download your own photo and have it instantly matched online with that cool motorcycle vest or hip pair of distressed jeans? The same touch-screen also allows kids to play instant DJ, where they can mess online with the very same music that's being played in the store—slowing it down, speeding it up or even voting it off the playlist.

Nearly nine in 10 kids who shop at 77kids try one of these technologies while visiting the store, Schumacher estimates.

The company makes no bones about laser-targeting 10-year-olds. "The point is to keep a kid engaged so that shopping is enjoyable," Schumacher says. "Kids are looking for entertainment when they come to the mall."

## Ex-adman Wants Change

Marketers, in turn, are looking for kids. And profits.

It isn't just advertising watchdogs who think it's time for a change. So does the guy who two years ago was arguably the ad world's top creative executive, Alex Bogusky. The agency that he has since left, Crispin Porter + Bogusky, has created campaigns for such kid-craving companies as Burger King and Domino's. Now, with the ad biz in his rearview mirror, Bogusky suggests it may be time for marketers to rethink.

"So what if we stopped it?" he recently posed on his personal blog. "What if we decided that advertising to children was something none of us would engage in anymore? What would happen? A lot of things would happen, and almost all seem to be for the good of society."

Babies as young as 6 months old can form mental images of logos and mascots—and brand loyalties can be established as early as 2, says the watchdog group Center for a New American Dream. McNeal, the kids marketing guru, says he consults with companies that are constantly trying to figure out how to get inside day care centers and bore their images inside the minds of preschoolers.

Back at Isabella Sweet's Webkinz-filled home, she's still saving her weekly $1 allowance to buy yet more. She can't help it, she says, even though each one costs $5 to $13. Even the family cats drag out her Webkinz to play.

"I wish I had a favorite Webkinz, but I don't," says Isabella. "I love them all."

## Critical Thinking

1. With a small group of peers from your class, debate the ethical implications of marketing directly to children and teens.
2. The article states that "Marketers are getting more and more devious. . . . They have new avenues for targeting children." Present current marketing examples that support this premise. Do you agree with this statement?

## Article 21

# It's Cooler than Ever to Be a Tween

### They're a hot market, they're complicated, and there are two in the White House.

SHARON JAYSON

The prepubescent children of days gone by have given way to a cooler kid—the tween—who aspires to teenhood but is not quite there yet.

Tweens are in-between—generally the 8-to-12 set. The U.S. Census estimates that in 2009, tweens are about 20 million strong and projected to hit almost 23 million by 2020.

Among them now are Malia Obama, at 10 already a tween, and sister Sasha, who turns 8 this year. With the Obama daughters in the White House, the nation's attention will focus even more on this emerging group—and the new "first tweens" will likely be high-profile representatives of their generation.

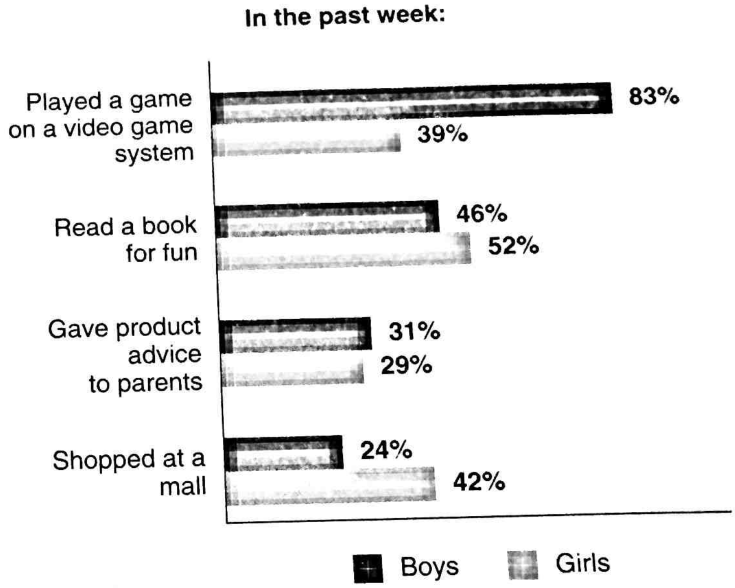
"My daughter is really excited that there's a girl in the White House the same age she is," says Courtney Pineau, 31, of Bellingham, Wash., mother of fifth-grader Sophia, age 10.

Retailers know tweens are a hot market for clothes, music and entertainment. But now psychologists and behavioral researchers are beginning to study tweens, too. They say tweens are a complicated lot, still forming their personalities, and are torn between family and BFFs, between fitting in and learning how to be an individual.

Tweens have "their own sense of fashion in a way we didn't have before and their own parts of the popular culture targeted toward them," says child and adolescent psychologist Dave Verhaagen of Charlotte. How will this shape their personalities? "Time will tell. We don't know."

Research has shown that middle school is where some troubles, particularly academic, first appear. Also, a 2007 review of surveys in the journal *Prevention Science* found that the percentage of children who use alcohol doubles between grades four and six; the largest jump comes between fifth and sixth grades.

"They're kids for a shorter period of time," adds psychologist Frank Gaskill, who also works with tweens in Charlotte. "More is expected of them academically, responsibility-wise."




**What tweens are doing.**

Source: Youth Trends (based on in-person interviews with 1,223 8-12-year-olds in December. Margin of error ±2.8 percentage points).

Many parents, including Beth Harpaz, 48, of Brooklyn, are well aware of this short-lived time. Her older son is 16 and a high school junior; her younger son is 11 and in fifth grade.

"I'm trying really hard to save his childhood. I want him to enjoy little-boy things and don't want him to feel that he has to put on that big hoodie and wear the $100 sneakers and have that iPod in his ear listening to what somebody has told him is cool music," says Harpaz, author of *13 is the New 18*.

## Gender Differences

Boys haven't been the main target of marketers hawking all things tween, from clothes and makeup to TV shows and music. But Disney wants to change that with its launch Feb. 13 of Disney XD, a "boy-focused" cable brand that includes TV and a website with themes of adventure, accomplishment, gaming, music and sports.

Until now, Disney has been "a tween-girl machine," Verhaagen says. "It may be that teen idols and celebrities are more inherently appealing to girls because it's all about personality and music and relational things that girls are more interested in. Boys at that age are more interested in sports and adventure and are not as easily marketed to by personalities and pop stars."

The Disney Channel and Nickelodeon are favorites, according to an online survey this summer for the 2008–09 GfK Roper Youth Report. The data, released to *USA Today,* found that of 500 tweens ages 8 to 12 asked about activities within the past week, 82% had watched Nickelodeon and 69% had watched Disney; 92% said they had played outside.

**Tweens have "their own sense of fashion in a way we didn't have before and their own parts of the popular culture targeted toward them."**

—Psychologist Dave Verhaagen

Verhaagen, father of two girls, 11 and 13, says tweens are "immersed in consumer culture" and seek connections and identity through social networking and shared entertainment experiences, but they're still "aligned with their parents."

New data from in-person interviews in December by Youth Trends, a marketing services company based in Ramsey, N.J., found 85% of the 1,223 respondents ages 8–12 agreed that "my family is the most important part of my life" and 70% said "I consider my Mom and/or Dad to be one of my best friends."

Elizabeth Hartley-Brewer, a parenting expert in London and author of *Talking to Tweens,* says the tween years are when young people begin to realize the wider world, and to see themselves as separate from their families. That's why the peer group is so crucial, she says.

Jade Jacobs, 12, of North Potomac, Md., is active in soccer, basketball, gymnastics and two cheerleading teams. "The main reason I do most of my sports is to hang out with my friends and to get exercise," she says.

She also loves to shop with friends. "It's not always about buy, buy, buy," she says. But, "if we have a little money, we'll find a cute accessory."

Her mother, Christina Jacobs, 43, says the idea of "mean girls" is part of the tween years, which is one reason girls worry about clothes. "Girls are looking at each other and seeing who is wearing what. They're harder on each other," she says. "Girls are looking at each other at 9 and 10, and boys are in la-la land."

## Music Is Cool

Eleven-year-old Campbell Shelhoss, a fifth-grader in Towson, Md., says he's not in a hurry to be a teenager, even though he says he has outgrown some childhood pastimes.

"I feel like Pokémon is a little young," he says, and he puts cartoon toys and handheld video games in the same category.

He plays baseball and golf. He wanted a cellphone "for a few weeks" and then decided it wasn't that important to him.

Almost two-thirds (63%) of kids 8 to 12 do not have a cellphone, the Youth Trends study finds. It also finds that tweens spend 12.1 hours a week watching TV and 7.3 hours online.

The Roper report also asked tweens to rate 17 items as "cool or not cool." Music was at the top of the cool list, followed by going to the movies. "Being smart" ranked third—tied with video games—followed by electronics, sports, fashion and protecting the environment.

## The "First Tweens"

"Right now, their friends and their status is everything to them," says Marissa Aranki, 41, of Fullerton, Calif. She is a fifth-grade teacher and has two daughters, 18 and 12.

"It's universal for the age, but they show it in different ways. For boys, the whole friendship thing is through technology and through sports," she says. "Girls like to talk, either about other girls or about boys. A lot of the girls are really boy-crazy. And some of the boys are not really girl-crazy yet. They're really out of the loop in that case. They've got their little guy friends and they're trying to be athletic, and that's what they care about."

Tweens are part of the larger generational group sometimes called Millennials or Generation Y. Those in their late teens through mid-20s are "first-wave" Millennials because they're the ones who set the trends that this later wave (born between the early 1990s and about 2003 or 2004) continues to follow, suggests historian and demographer Neil Howe, co-author of several books on the generations.

Verhaagen, author of *Parenting the Millennial Generation,* says older and younger Millennials share certain traits, such as comfort with technology and diversity, and being family-oriented.

He believes the struggling economy also will leave an imprint on both groups of Millennials; the younger ones could become less materialistic and consumer-driven.

Howe says tweens are even more interested in being protected and sheltered than their older Millennial siblings; he says this is because the parents of older Millennials tend to be Baby Boomers while parents of the younger group are often part of Generation X, in their 30s to mid-40s.

"These Xers are concerned about such things as safety and protection," he says. "They're not as worried as Boomers were about making their children paragons of perfection. Xers care less about that and try to do less. They're more pragmatic."

Howe counts Barack and Michelle Obama as Gen Xers, those born between 1961 and 1981. But many view the president and first lady as post-Boomers who are part of "Generation Jones," a term coined by cultural historian Jonathan Pontell for people born between 1954 and 1965.

Either way, it may be tough for the Obama girls to stay out of the spotlight, suggests Denise Restauri, founder of a research and consulting firm called AK Tweens and the tween social networking site AllyKatzz.com.

"They're in nirvana," she says. "Right now, (Malia and Sasha) are the most popular girls in school. It doesn't get much better than that when you're a tween."

## Critical Thinking

1. Summarize the purchasing attitudes and habits of Tweens in the United States.
2. In your opinion, what current lifestyle shifts explain Tweens' purchasing patterns?