DECODING DEMAND OPPORTUNITIES

Classic marketing techniques, such as the use of focus groups or ethnographies, miss the enormous opportunities that can be leveraged once companies commit to understanding consumers in the context of life experiences. Erich Joachimsthaler and Markus Pfeiffer believe it’s time to think about the ecosystem of demand.
All angleworms in a bottle, trying to derive knowledge and nourishment from their own contact and from the bottle. Sometimes the bottle is shaped art, sometimes economics, sometimes economic-religion. But once they are in the bottle they stay there.

—Ernest Hemingway from Green Hills of Africa

When Hemingway referred to “angleworms,” he was referring to writers in New York. But, to us, his words also aptly describe so many people we have met in the business world, people working tirelessly to come up with the best innovations — the marketplace winners that companies so desperately need to compete (or even survive) in today’s economic climate. Their efforts can’t be denied, but they have unwittingly developed blind spots that often prevent them from doing effectively what they need to do in order to succeed. Like Hemingway’s angleworms, they’re “in the bottle” and the bottle’s walls are preventing them from seeing the next great innovation their company could offer.

Consider: most companies have put “understanding customers” on the top of most executives’ agendas. And, as a result, many companies have used sophisticated methods to gather detailed information about those customers. Today, we don’t just ask consumers what they think, and we don’t just listen to them — we also observe them. Nearly every company touts some form of anthropologically inspired observational technique and swears to the importance of having everyone in the organization (including the CEO) spend time hanging around consumers’ homes or wherever they habituate.

Customer-centric?
The problem is that, over the years, as companies have become “customer-focused” and have adopted these sorts of learning tools, three things have happened. First, their execution has become sloppy. The act of using the tools has become increasingly familiar, and, as a result, researchers are noticing less than they should. Insights that used to “pop” no longer do so. Instead, baseline data is supplemented and complemented by additional information — often about the same set of customers — and researchers emerge with few truly fresh insights. Put simply, many companies have been doing the right sorts of things research-wise for so long, they’re now doing them wrong.

Second, over time, companies have begun to equate studying consumers with understanding them. In the interests of launching a new product or researching the way a product is used, companies tend to set achievable deadlines and deliverables, then focus their efforts accordingly (on how a customer uses a product or what attributes they value). Companies learn a great deal about these isolated factors, but they miss the big picture because they never consider the full complexity of the nature of consumer demand.

Third, companies have become too quick to take up a consumer insight as an indication of strong demand. Companies have taken the innovation hype in overdrive in search of a big idea, a disruptive innovation, a game-changing new product or a new design – and, voila! – have quickly prototyped a solution. In the end, while there have been a few examples of commercial success via such reflex actions, most efforts appear akin to the corporate version of chasing romantic dreams or trying to catch rainbows. Disruption and game-changing innovations simply don’t come around with great frequency in an industry, and too many executives who brag that they’re expanding the envelope or some such turn out to be, well, braggarts without much to brag about.

If anyone is being fooled by all this, it’s not the customer. From a consumers’ perspective, the results (in terms of true innovation yield) are disappointing. As a recent Yankelovich Monitor survey attests, nearly three out of four consumers agree with the statement: “Businesses care more about selling me products and services that already exist rather than coming up with something that really fits my lifestyle.” And the problem is getting worse. Notwithstanding the recent hype about consumer-led innovation, these survey results show an increase from the 2006 survey in which only 62 per cent agreed with the same statement.

New perspective
What’s needed is an entirely new perspective on identifying, learning about and interpreting demand opportunities. Companies need to be less focused on products and consumers and more open to revelations about the situations, rituals and routines of people’s daily lives — what we call the economic or commercial “ecosystem”. Some companies have begun to take this perspective. Tesco is one such company, as evidenced by the way its leaders and researchers have prepared to launch new stores in the American market. Another is Apple; the iPod is one of the more publicized examples of the result of just this sort of ecosystem awareness.

Over the past eight years, we have worked with business leaders in developing a clear, replicable framework that many different companies can use to foster relevant innovation. We call this approach “Capturing the Ecosystem of Demand”; and it has been used by more than 50 companies, including Allianz, American Express, PepsiCo, Philips,
Best practice

With 200 consumers capturing five incidents a day over just one month, we capture about 30,000 episodes. This allows companies to set aside fragmented information and consider demand opportunities afresh. From a practical standpoint, the framework provides both a new perspective on demand and a new methodology and research approach, which we call the Episodic Reconstruction Method (ERM).

ERM is based on a similar methodology developed by Nobel Laureate Daniel Kahneman and his colleagues for use in the cognitive sciences. In contrast to ethnography, the methodology does not merely require researchers to observe consumers in a few contexts but attempts to broadly capture a wide range of situations and contexts of interests. Applying ERM involves studying the episodes of life around a subject — such as living around food, taking care of children or dealing with a knee injury. When we talk with consumers about such life episodes, we typically ask them to reconstruct every event that was part of that episode. And we ask them to record their thoughts daily.

With 200 consumers capturing five incidents a day over just one month, we capture about 30,000 episodes that become the primary focus or unit of analysis. We survey these consumers about the context in which the incident occurred, where it took place, when it took place; then, we probe the experiences in each episode.

Demand ecosystems

Customer-centric marketing typically calls for understanding customers and their use of a given product or service by considering six factors: who, what, why, when, where and how. In practice, however, the context in which people experience a product or service, the when and where of use, is often considered as an afterthought. Even if we’re in a consumer’s home and observing closely as he or she is using a product, we merely study the when and where in a very limited context and over a limited period of time.

What the Ecosystem of Demand model seeks to do is explicitly recognize the ways in which who, what, why, when, where and how interconnect and work together. The model decomposes the studying of patterns of a huge amount of routines, rituals and situations by analysing the episodes of people’s lives into three main components:

- First are the activities, tasks and goals that govern behaviours in daily life.
- From this follows an exploration of the physical, temporal, social and cultural contexts in which these activities are taking place (when, where).
- Last, by design, are the products and services that are used by consumers in taking care of these activities and achieving goals (what, how and who). Knowing this, it is possible to explore deeply held beliefs, needs, wants, frustrations, passions and desires (why).

Consider the following example. Let’s assume a certain computer company had studied the episodes of people’s lives around music in the late 1990s. It would have found great differences in behaviours, some listening to music daily, some less frequently. It would have found that some people buy music at a store in the form of a CD while others already began to download from illegal music sites like Napster. It would have found that many young people are intensive computer users, learning about music from downloading single files, which they share among others over the Internet. By studying the thousands of episodes of how people manage music, researchers would have learned that there are distinctive behaviour patterns of how people evaluate, select, buy, listen and organize music. What’s the computer company to do with the information?

It could introduce an MP3 player that surpassed the feature set and design of existing MP3 players offered by dozens of companies. However, it could innovate as Apple did and introduce the iPod and the entire system of products and services, which include software to find, evaluate and buy music (the iTunes experience), supported by a new business model. Apple’s approach changed the way people live in terms of how they “consume” music. Though we did not work with Apple on this breakthrough, we nonetheless are convinced that the company scored its success by positioning its emerging iPod product within an ecosystem of demand and thus arrived at a holistic marketing breakthrough. Companies that do things in this way generally follow the ERM framework.

Episodic reconstruction

Episodic reconstruction has its origin in the social sciences, particularly well-being research and hedonic
psychology. We have adapted this methodology for
the study of the episodic behaviours of people and
studying demand.

The methodology calls for a systematic
reconstruction of the episodes in a consumer’s life
with reference to a particular life matter or concern
such as eating out, listening to music, commuting,
spending time with children. People are asked to
record in situ via GPS-enabled mobile phones all
episodes of the day, such as driving the family car.

At the end of a typical day, the episodes are
recalled into short-term memory by asking people to
respond to questions on a computer that describe
each episode in terms of specific behaviours,
motivations of goal achievement and priorities,
including contextual information (physical, social,
temporal and cultural) about use or consumption of
products, feelings, emotions and perceptions.
Episodes are collected over a week (or a month),
during which people are not aware of the name of
the specific sponsoring product or company.

Episodes are captured digitally in a cloud-based
database. A first-level analysis focuses on identifying
the structures and patterns of behaviours in people’s
lives around important life concerns. For example, a
study on how people live around pictures in their lives
could yield the following behavioural structure: take
photos, edit photos, email photos, order prints,
archive photos. This is followed by a second-level data
collection and analysis involving one-on-one in-depth
discussions and observations, usually in a consumers’
home or work place. The discussions focus on the
sequence of episodes using stimuli provided by
people who made journal records, took pictures or
collected images and objects, or completed specific
exercises during the initial episode data collection.

Analysis of the data then focuses on
understanding the structure, pattern and code of
relevant issues, life concerns or domains in people’s
lives: how people take care of their memories
(taking pictures, editing pictures) or, for example,
how people live around beauty (go to the spa, eat
healthy). By structure we mean the sequence of
steps, tasks, projects, or other activities people
perform around a life concern and context. The
same information can be gained from ethnographic
or observational research. The difference is that
episodic reconstruction allows for the analysis of not
just one or a few specific episodes but thousands,
in a cost-effective manner.

The methodology also provides information as to the
pattern of episodes. It tells us how many people
edit photos before developing them and in what
context. It provides new information that becomes
extremely valuable for the innovation process. For
example, in the year 2000 our methodology would
have discovered that young people already download
songs one at a time for free from Napster and Kazaa
even though overall the market still bought CDs at
the record store. Detecting a pattern of behaviours
and understanding discontinuities and tradeoffs
help one to see opportunities that are hidden in
plain sight. Learning about the emotional or cultural
code of a consumption or use episode can lead to
the identification of latent needs or wants.

Finally, episodes are grouped into domains or
consumer areas that define the relevant opportunity
spaces for a company or its products. These areas
are called demand-first growth platforms. A platform
might then be served with a set of existing or new
products or services or an innovation as simple as a
digital app or as complex as a new business model.

Comprehensive opportunities
The value of our approach is clear. It allows
executives to break free of being an “angleworm in
a bottle” by framing the growth challenge in a new
way. Instead of studying competitors or categories,
differences of products or services, or brand
perceptions, our approach focuses on episodic
behaviours in the context of the daily lives of
people. Rather than seeking to find products or
services that are merely different from competitors’
products, a company’s efforts are focused on
helping people improve their lives. Essentially,
the approach sets a company’s segments or products
aside, and instead looks for ways to better fit into,
or reshape significantly, the episodes of daily life. It
replaces the conventional approach long-advocated
by marketers of achieving share of mind or share of
wallet for their products or brands with the more
meaningful concept of share of life.

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