



Absolute Value

What Really Influences Customers in the Age of (Nearly) Perfect Information

THE SUMMARY IN BRIEF

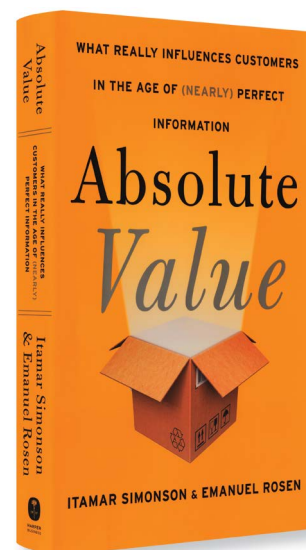
Going against conventional wisdom, *Absolute Value* reveals what really influences customers today and offers a new framework — the Influence Mix — for thinking about consumer decision making, which should help managers develop more effective marketing strategies.

How people buy things has changed profoundly — yet the fundamental thinking about consumer decision making and marketing has not. Most marketers still believe that they can shape consumers' perceptions and drive their behaviors. In *Absolute Value*, Stanford professor Itamar Simonson and best-selling author Emanuel Rosen show why current mantras about branding and loyalty are losing their relevance. When consumers base their decisions on reviews from other users, easily accessed expert opinions, price comparison apps, and other emerging technologies, everything changes. Contrary to what we frequently hear, consumers will (on average) make better choices and act more rationally.

Absolute Value answers the pressing question of what influences customers in this new age. Simonson and Rosen identify the old-school marketing concepts that need to change and explain how a company should design its communication strategy, market research program and segmentation strategy in the new environment. Filled with deep analysis, case studies and cutting-edge research, this forward-looking book provides an entirely new way of thinking about marketing.

IN THIS SUMMARY, YOU WILL LEARN:

- The key differences between relative and absolute value.
- How technology and social media have changed consumer decision making.
- To create the right strategies based on the Influence Mix driving your business.
- Why current beliefs about shaping consumer perception are losing relevance.



by Itamar Simonson and Emanuel Rosen

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THE COMPLETE SUMMARY: ABSOLUTE VALUE

by Itamar Simonson and Emanuel Rosen

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Introduction

Consumers used to make decisions relative to other things — a brand name, their previous experience with a company, an inflated list price, a brand's advertising message compared to competing brands' messages, or the other products a marketer chose to display on a catalog page or on the shelf. But this is starting to change, and as we're moving toward an age of nearly perfect information, consumers can now evaluate each product individually without relying on relative comparisons. In a world where consumers enjoy complete access to informed experts and various information services, where they can instantly read the opinions of previous users, it's much easier for consumers to predict their likely experience with a product or service. It's easier to know the absolute value of things.

When we talk about "absolute value," we refer to the experienced quality of a product: the experience at a restaurant, the pleasure of reading a book, the closeness of the shave, the actual comfort of headphones, or the usage value you get from using your camera. The new information environment around us allows consumers to predict much more accurately the experienced quality (or absolute value) of products and services they consider getting.

The implications for consumers and businesses are enormous. Reliance on absolute values means that, on average, consumers make better decisions and become less susceptible to context or framing manipulations. For businesses it means that marketing is changing forever. ●

PART I: THE SHIFT FROM RELATIVE TO ABSOLUTE

From Relative to Absolute

The practice of marketing through the 20th century was largely geared to communicate values relative to reference points. We chose an item on the shelf because it looked better or cost less than the one next to it. We evaluated products relative to our prior experience with a particular brand. In short, we evaluated things relative to whatever was most accessible to us. Marketers took note of that, and much of the marketing textbook is about the effective creation of relative quality proxies, such as brands.

In many cases today, our decisions are no longer driven only by what happens to be in front of us or is top-of-mind. Instead, we can easily and quickly evaluate things based on a global context — other sources, information and options that are not under anyone's control. Judgments are still relative, but the reference points can be based on the best of what's available out there.

While relative evaluations are based on comparisons with whatever happens to be most prominent, or placed in front of you, absolute evaluations go beyond the local context to use the most relevant information available about each product and feature, and they usually produce better answers. Absolute evaluations get people closer to the truth, but "truth" is too strong a word here. They get people closer to knowing what to expect.



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What Drives the Shift from Relative to Absolute?

A technological revolution, still in its infancy, is driving this shift, as new tools help us assess the quality of products and services we're considering. Aggregation tools, advanced search engines, reviews from other users, social media, unprecedented access to experts and other emerging technologies — these things make it possible for consumers to make better decisions without having to rely on relative evaluations.

Examples are all around us: A woman compares prices of video games at a big retail store. Using “relative” tactics, the retailer can influence her choice by placing a game they want to push next to a very expensive one, making the former look like a bargain. But then the woman scans the bar code of the game, using her smartphone, and finds out that it's available at the store next door for less than half the price (and even cheaper online).

Review sites (from Amazon and CNET to Yelp and Zagat) tell us about the reliability and usefulness of products. Post a quick question on Facebook or Twitter, and you are likely to get customized advice from a knowledgeable friend. Mobile apps such as ShopSavvy or Bakodo inform us about the resale values of products.

The cumulative effect of existing technologies and their dramatic effects on how consumers make decisions pose a major challenge to established ideas about marketing and related business functions. Simply put, it makes influencing through relative tactics and indirect cues (such as brand and price) much harder. ●

The Decline of 'Irrationality'

Over the past four decades, thousands of experiments have suggested that marketers can easily sway people to act in “irrational” ways. But in the new information environment this is becoming less representative of reality. These influences fall into three broad categories: framing effects (framing the presentation of products in particular ways), choice context effects (e.g. creating a context of differently priced items to boost sales), and task effects: the manner in which consumers are asked to evaluate the offer.

What happens to these theories of choice manipulation and influence in the “noisy,” information-rich and socially intensive environment that is developing? First, the relevance of these influence tactics has diminished in a world where people can easily assess quality. On average, better decisions are being made based on the information that's available. Second, the noise that all this information creates has a surprising effect.

Influence and manipulation work best when there's full control over what people are exposed to and “noise” is kept to a minimum. Noise refers to any information that is not under control, often consisting of diverse pieces of data from different sources, about different aspects and options. In the current information environment, there are just too many distractions.

As you hear about fascinating findings about consumers' “irrationality,” take them with a grain of salt. Lab experiments often depend on the researcher having full control over what participants see, which is radically different from today's shopping reality.

There is very little control over what people see when they shop online, and as smartphones are increasingly used by brick-and-mortar stores, the gap between the lab and reality gets even wider. Consumers are far from being as susceptible to influence as they are being portrayed. ●

New Patterns in Consumer Decision Making

Research suggests that the choice overload problem is not as serious as it has been portrayed. This is true especially as search and sorting tools steadily improve. In addition, we see new patterns in decision making that emerge with the abundance of high-quality information. Let's look at three trends that are emerging as a result of our new information diet: “couch tracking,” “faster verdict” and “more from the head.”

Couch Tracking

The purchase process in traditional models is typically assumed to begin when the consumer recognizes a problem. Next, the consumer engages in information search and evaluates options, which leads to preferences and a purchase decision (or purchase delay). But today, when high quality information is so readily and cheaply accessible, some people don't see the need to postpone information acquisition until a specific purchase intention is formed. Instead, millions of people keep track of products on an ongoing basis. If you're reading any of these sources on an ongoing or even occasional basis, it means that more often than not, you're not in the market for the products you're reading about. You just want to know what's out there. You're couch tracking. What does the rise of couch tracking mean to marketers? It means that preferences are often formed well in advance of any specific plan or intention to purchase. As a result, once an intention to buy is formed, the decision is pretty much already made. Ac-

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cordingly, marketers should pay more attention to couch trackers rather than just focus on declared buyers.

Active Search and Faster Verdicts

These days when a higher percentage of decisions is a result of an active premeditated search, more decisions lead to action. A decision not to buy is also a verdict. People hear about a product; they search for it, and since they deliberately searched, they feel that they need to act one way or another. The fate of products is determined faster as a result. Today more people feel comfortable going from discovery to purchase, sometimes at a surprising speed.

More From the Head, Less From the Heart

Another shift in our information diet has to do with the emotional content of the information we consume.

Thirty years ago, when you shopped for a camera, you relied on ads that talked about preserving the precious memories of your family or told you a camera will give you “the power to be your best.” Now, the language of reviews tends to be more specific, more matter-of-fact, and focused on quality and the use of the camera. Consumers are less exposed to advertising puffery when most of their information comes from experts and fellow consumers. Emotional appeal can still be powerful; it’s just less effective when it faces meaningful competition from more “rational” sources. ●

Why We’re Bullish About Absolute Values

Stories about vendors that try to game the system, vindictive customers, or accusations of corrupted rating systems appear frequently in the press, raising justified concerns about the credibility of information sources. While it’s easy to fake some reviews, gaming the system (without being caught) is harder than one thinks, especially as participation in rating systems grows. When manipulations are successful, a gap between positive reviews and negative experiences is likely to generate frustration, which can erode consumer trust in a review site.

Reviews are far from being perfect, but the one solution that consumers are not turning to is to ignore reviews altogether and just rely on marketers as the main source for information regarding quality. Consumers are much more likely to migrate to review sites they do trust, to opinions of experts, and/or to recommendations from friends and acquaintances. All of these are much more accessible in the new, socially intensive information environment. ●

PART II: HOW MARKETING CHANGES FOREVER

When Brands Mean Less

In the old days, consumers often had a hard time assessing quality before making a decision and had to rely on cues such as affiliation with a chain. This gave rise to much of what we know as marketing. When quality was hard to predict, a brand was a simple shortcut that told you what’s likely to be good and what isn’t. But when you can quickly tell how good or bad something is, based on more reliable sources than just the name, brand has a reduced role as a quality signal.

Brand names also tend to exaggerate the real quality differences among products. If you focus on brand name when considering a headphone or even an artificial sweetener, your prior beliefs tend to categorize products with a broad brush and tend to amplify presumed differences between good and bad brands. User and expert reviews tend to level the playing field. True, reviewers may also be swayed by brand names to some degree. However, reviews are often based on actual experience.

The reduced role of brand as a quality signal can present significant opportunities to newcomers who may enjoy lower barriers to entry. Companies can also diversify more easily regardless of the skills consumers associate with a particular brand.

The Decline of Other Quality Proxies

Brand is not the only cue that consumers use as a quality proxy when better information is not available. There are a few others, and they will decline in importance as well. Country of origin is one. If a watch is made in Switzerland, a car in Germany, or an espresso machine in Italy, “it must be the best.” At least that’s how the thinking goes. Country of origin can be a pretty good signal in the absence of detailed information. But it can’t be too accurate as a predictor of quality. There are more than two dozen manufacturers of espresso machines in Italy, for example, and it is unreasonable to believe that every single model is better than all the other models manufactured elsewhere.

One of the strongest quality cues that is on the decline is price. When quality was hard to assess, price was a convenient shortcut for quality. “If it’s expensive, it’s probably good” or “You get what you pay for” (which is typically used to explain why you should pay more). Such statements represent rules of thumb that are supposedly based on some unidentified past lesson, but once you can assess

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absolute values more precisely, you can actually determine if you get what you pay for. It's not that price as a quality proxy will completely vanish. Price and other quality cues will continue to have at least some effect on the quality perceptions of at least a portion of all consumers. ●

Satisfaction, Loyalty and the Future of Past Experience

Today, the past doesn't matter as much as it used to. Actors have been saying for decades that "you're only as good as your last gig." These days, even your last gig doesn't matter that much anymore. Fortunately or not, it's the absolute value of your current product that drives its success.

When good information was hard to get, relying on our previous positive experience with a brand made sense. But in a world with good, low-cost information, we can easily start from scratch each time. This has major implications for the significance of satisfaction and loyalty.

Loyalty or Open Marriage?

Marketers love to talk about loyalty and long-term relationships with customers, but these days, more and more consumers see their relationships with companies as an open marriage.

A 2012 Deloitte study demonstrated a sharp decline in loyalty to hotel chains, with only 8 percent of survey respondents saying that they always stay at the same hotel brand. While there might be different factors that underlie this trend, at least part of it is driven by consumers' ability to use tools like price comparison sites, review sites and other sources to assess the absolute value of each hotel before deciding where to stay.

In fact, from a consumer's perspective, loyalty can often be an inferior input, because quality and performance can vary greatly across products by the same company. This means that even if consumers had a good experience with other products by the same brand, each new purchase decision needs to be earned based on the product's actual capabilities.

Opportunity Knocks

The decline in the impact of consumer loyalty can present significant opportunities. If you feel a decline of loyalty among your customers, your competitors probably face the same problem. If you offer a better solution than your competitors, don't hesitate to show it to their followers (not a new strategy, but it may become more effective). If your product is superior in ways consumers care about,

its merit will become apparent to them faster than in the past. Success is driven by the merit of your current product and much less by your customers' past experience. This is the age of now. ●

Absolute Diffusion

A lot of marketing thinking is still based on an information environment characterized by high levels of uncertainty. A key example is the classic adoption model, which still guides many strategies. This model classifies the population into five adoption categories: innovators, early adopters, early majority, late majority and laggards. At first a few innovators who are willing to take risks will adopt an innovation. They will be followed by the early adopters; then the first mainstream group, the early majority, will start to adopt the innovation, followed by the late majority. Finally the laggards will adopt the innovation (or choose not to).

The sharp distinction among adopter categories was most meaningful when the increase in information availability was very slow. These days, finding people like you — whether they're strangers or acquaintances — who have adopted an innovation is much simpler than it was in the past.

In the new information environment, we can expect faster uncertainty resolution regarding the product quality, preference fit and acceptance by relevant others.

Practical Implications

What harm can there be in marketers classifying their audience into adopter categories? Thinking about adopter categories when they are less meaningful can lead to the wrong strategic decisions.

Consider the case of tablet computing. Everybody is familiar with Apple's iPad, but not everyone remembers that Microsoft introduced a tablet way before Apple (back in 2002). The tablet PC initiative was a top priority at Microsoft. Yet, instead of releasing the technology and letting interested segments adopt it organically, Microsoft chose to target vertical markets such as health care, insurance, real estate and legal, where the use of the tablet made sense (at least to the folks at Microsoft).

Five years later, Apple introduced the iPad without pre-determining (or limiting) who was going to use it. Indeed, the iPad was initially adopted by many who would never have been classified as innovators or early adopters. The target market for new innovative products should be defined more broadly, not just chronic "innovators." Your first version can be adopted by anyone because information about it is so readily accessible. ●

Pointless Positioning and Persuasion

Positioning is rooted in the idea that product perceptions are driven by product presentation relative to other options. Instead of evaluating the product based on its actual value, you presumably evaluate it under the influence of the marketer's communications strategy.

Nice positioning statements compiled in corporate meeting rooms are less likely to be adopted by the market these days. If your product has a real advantage over your competitors, you should highlight this differentiating factor. But trying to make a product appear unique by adding fluff or emphasizing a feature or claimed differentiator that is of limited use or relevance to most doesn't work as well as it used to.

Even when you think your product is differentiated enough, positioning is less effective than it used to be, because a new product is likely to be evaluated based on its absolute values. The manner in which it is portrayed or positioned by the marketer is likely to have much less influence on consumers' perceptions and choices. Marketing communication agencies will have to adapt to focus less on persuasion or preference formation and more on generating interest.

Companies in some domains may also expect a shift in the importance of their sales forces. These days there are more efficient ways to transmit information than through salespeople. While relationships will continue to be important, one would expect the impact of relationships on vendor choice to decline over time. What you say (or how you say it) is less important today. It's more about what you do. The name of the game is merit. ●

PART III: A NEW FRAMEWORK

The Influence Mix

With marketers' rush to social media, we often see strategies that are adopted across categories without much attention to how well they are aligned with the way customers make decisions in a certain domain. The Influence Mix is a framework to help marketers determine the relevance of the trends to their particular situation. From brands losing their role as proxies for quality to the declining effectiveness of persuasion techniques — the extent to which these trends apply to a particular firm depends on its customers' Influence Mix.

A person's decision to buy is affected by a mix of three related sources:

- The individual's Prior preferences, beliefs and experiences (P).
- Other people and information services (O).
- Marketers (M).

For example, when you buy a new cell phone, you're influenced by your prior attitudes, habits and pre-stored information (P), by your friends, reviewers and experts (O), and by the cell phone marketer (M).

When Vague Meets Trusted

We think of the Influence Mix as a zero-sum game. For any given decision, the greater the reliance on one source, the lower the need for other sources. So a rise in the weight of any one factor must come at the expense of another. If the impact of O on your camera purchase goes up, the influence of M and/or P must be lower. Influence is transforming in many categories like this: Since P is vague and unstable, other sources usually capture "decision share" from it. In the past, M gladly played this role, but with the rise in availability of O (which is perceived as more informative and reliable), O is taking over.

Still, there are cases in which P or M still dominates the mix. With all due respect to O, marketers should understand its proper role in each category. Even in categories that people discuss more often, the chatter doesn't always mean that O dominates the decision.

So What's Your Customers' Influence Mix?

Marketers must understand their customers' current and future Influence Mix, the importance of P, O and M for their customers' purchase decisions, given the product category, their customers' characteristics (which vary by customer segment) and the brand position. The critical questions for you to ask are, "To what extent do my customers currently depend on O and on specific O types or ingredients in making their purchase decision, and to what extent might they depend on O in the future?"

Since we're not dealing with a yes/no question, we present the answer on a continuum. The closer your customers are located to the O-Dependent end of this continuum, the more significant these trends are in your situation.

Your customers' location on the O-influence continuum may vary across your products and, for a given product, across customer segments. In fact, you may find that segmenting your customers based on their location on the continuum is a more useful segmentation variable than most other traditional segmentation bases, such as demographics, psychographics or benefits.

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Your customers' location on the continuum can move as O information becomes more widely available, and we can expect and observe greater reliance on it. Products that were considered "low involvement" in the past can move toward "high involvement" as information becomes more accessible and diagnostic.

For example, it used to be difficult to find out the nutritional value of food in fast-food restaurants. Today you can look it up on the web or use apps like HealthyOut or Fast Food Calorie Lookup and get the answer in seconds. So, for certain segments, pre-purchase search is becoming more extensive and common in the fast-food category, moving them to the O-Dependent side. ●

Communication: Match Your Customers' Influence Mix

Most marketers recognize that times are changing, but many have not adjusted their strategies accordingly. To start with, marketers need to figure out their customers' Influence Mix and where their customers are, by segment, in terms of their dependence on O. Then they need to determine the corresponding "effective mix." Marketers' effective mix is derived from the key sources of influence on their customers' decisions.

Marketers who find their customers closer to the O-Dependent end of the continuum should stop thinking of themselves as the drivers of consumers' purchase decisions and embrace their role as followers. Because their customers shifted their attention from M to O, these marketers need to focus on O as well, especially where they can do something about it.

Although their role has been reduced, marketers should still understand where they can make the greatest contribution and what that contribution may be.

Generating Interest

In a nutshell, advertisers should focus on generating interest, not on creating top-of-mind awareness or persuasion. Instead of top-of-mind ads that focus on a brand name, the goal of advertising should be to generate interest in the product's advantages. This can happen before or, most important, when and where a decision is made.

Advertisers should place ads closer to the "moment of truth" (for example, use search engine or retail website ads). Marketers should focus on absolute advertising regarding features that count, and that information should be readily accessible and easy to comprehend at the point

of purchase (for example, on the Web page where the product is sold). Advertising can also be most effective when it's successful in generating enough interest for the consumer to add it to his "watch list," which enhances the long-term likelihood that this will lead to purchase.

Communicating Through O

Marketers should understand that their primary role is shifting from persuasion to communicating with consumers through O. Many marketers view social media as yet another instrument in their arsenal of persuasion tools, but trying to persuade consumers that your product is the best has become less effective even if it's done via social media. By and large, consumers will rely less on brand and loyalty when making a decision and instead will be likely to look around for the best product recommended by experts and other users.

So where can marketers make a difference in regards to preference formation? Increasingly, their task will be to make sure that each consumer can easily find O content that is relevant, recent and helpful. The best O content helps the consumer get closer to knowing his or her likely experience with a product. The impact of a "Like" on Facebook in that sense is not the same as a thorough product review by a respected blogger. ●

Market Research: From Predicting to Tracking

Marketers spend billions of dollars on research every year, but the results are mixed at best. Some of the problems are not new and relate to the basic challenge of using research to predict what consumers will want. But the problem gets even more difficult for O-Dependent products. There are several issues, but at the most fundamental level, O-Dependent marketers face one additional key problem: Market research usually tries to measure P, but decisions are increasingly based on O.

Beyond that, consumers have limited insight into their real preferences. This is especially true with respect to products that are radically different. Consumers tend to assume they'll continue to like what they like now, and show no appetite for things that look very different. A question that naturally arises is how predictive is individual, disconnected market research when individuals' future perceptions, preferences and actions are greatly influenced by information that will be acquired from O.

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We expect that future market research will focus more on tracking and responding to consumers' decisions as they occur, and less on long-term preference forecasting. Instead of measuring individual consumers' preferences, expectations, satisfaction and loyalty, marketers should systematically track the readily available public information on review sites, user forums and other social media.

Market Research to Determine Location on the Continuum

Predicting the location of your customers on the influence continuum requires marketers to assess two fundamental factors: diagnosticity and accessibility. Diagnosticity is the more important driver. It refers to the degree to which O is informative (or diagnostic) about your personal product experience.

Market research to determine the diagnosticity of O in a certain category calls for finding out from consumers how useful and informative O is or can be. One way to find out is to ask consumers through surveys and interviews. The other is to conduct experiments in which one group chooses a product or a service based on current information sources, and another group also has extensive (but realistic) O sources; the comparison can allow a marketer to determine the potential net impact of O.

Assessing the current accessibility to O can be achieved by observing what's available out there and by analyzing consumer information search and purchase behavior — determine where people buy, how they buy, what information sources they consider, the sheer number of available reviews and expert evaluations, and so on. Are consumers making decisions on their own, or are they reading reviews first? Do they consult with other users on social networking sites? How do they react to information they get from other consumers? Look at both the percent of potential customers who consider information from others, and for those who do, what is the impact of that information on their decisions?

Increasingly, marketing will be about understanding what information sources consumers use, following trends, trying to offer the right products, and then following consumers' reactions. The name of the game will be, watch competitors' initiatives, assess consumer reaction to those initiatives, and react as fast as possible. ●

Absolute Business: A Final Word

How will the new environment affect a company's structure and organization? When things like positioning,

branding or persuasion worked effectively, a mediocre company with a good marketing arm (and deep pockets for advertising) could get by. Now, as consumers base their decisions on their likely experience with a product, the marketing function in the organization has less of an impact on the success or failure of a business.

Since the impact of marketing is reduced, the impact of other functions in the organization increase, specifically those functions that affect absolute values. These may be different in different domains. R&D in consumer electronics and perhaps HR in the hospitality industry. Resources should be allocated to parts of the organization that have the biggest impact on absolute values as defined by prospective buyers. Follow the absolute.

The consumer in O-Dependent domains is the big winner of the shift to absolute. On average, consumers will make better decisions, and their ability to quickly assess their likely experience will push companies to provide better products and services.

Companies can win, too. Not companies that use smoke and mirrors, puffery and fluff. But those who learn to adjust quickly to the new era. Those that understand that it's not about brand, but about their next product. Success in the new era is about tracking what people want and then providing them with absolute value. Will relative forces still play some role in people's decisions? Of course. Will we see more and more decisions that are based on merit, on substance, and on the experienced quality of products and services? Absolutely. ●

RECOMMENDED READING LIST

If you liked *Absolute Value*, you'll also like:

1. ***Engaged!* by Gregg Lederman.** Lederman demonstrates how to communicate expectations for living the brand, measure to establish visibility and accountability, and ultimately create customers for life.
2. ***Can't Buy Me Love* by Bob Garfield, Doug Levy.** Garfield and Levy show you where authentic customer relationships come from, what they look like, and how to build them.
3. ***The Thank You Economy* by Gary Vaynerchuk.** Learn how businesses can harness all the changes and challenges inherent in social media and turn them into tremendous opportunities for profit and growth.