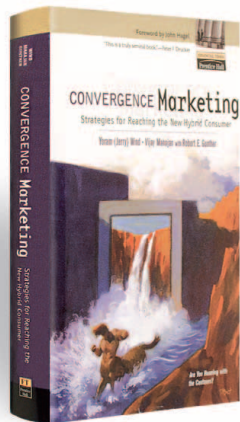


SOUNDVIEW Executive Book Summaries®

FILE: MARKETING



Yoram (Jerry) Wind and
Vijay Mahajan with
Robert E. Gunther

Strategies for Reaching the New Hybrid Consumer

CONVERGENCE MARKETING

THE SUMMARY IN BRIEF

During the advent of the Internet, marketers thought of consumers in terms of those who shopped in the non-virtual marketplace (traditional consumers) and those who shopped online (cyberconsumers). In reality, neither extreme truly reflected the habits of tech-savvy consumers. This new audience took on the hybrid qualities of the centaurs of Greek myth — half man, half beast — as they shuttled between online and offline storefronts and information centers, according to their needs. The companies best suited to meet these needs are those that engage in strategies of convergence, adjusting and adapting their businesses between online and offline environments to meet centaurs on their own terms. The authors examine ways to successfully engage centaurs, and look into the future of business and technology.

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What You'll Learn In This Summary

In this summary, you will learn the following:

✓ **Recognizing the needs of the new breed of consumer.** Centaurs make purchasing decisions based on a set of needs, from the desire for personalization to the need for interaction with others. By understanding their desires and harnessing the power of the tools at your command, you can reach them.

✓ **Mastering the Five C's of Convergence.** Consumers can do things they never could do before, combining their traditional behaviors with the constantly advancing possibilities of technology. To meet the ever-evolving needs of this audience, companies must address the convergence of the consumer with the technology in five key areas: "customerization," community, channels, competitive value and choice tools.

✓ **Redefining the Four P's.** The four traditional components of successful marketing strategy — product, price, promotion and place — continue to be important today, but each has been transformed by the Internet, raising new challenges, applications and opportunities.

✓ **Finding the Pathways to Convergence.** To truly build an organization that is open to the new hybrid consumer, you must be willing to transform the way you do business, and feed that transformation into the messages you broadcast to your increasingly individualized audiences.

CONVERGENCE MARKETING

by Yoram (Jerry) Wind and Vijay Mahajan with Robert E. Gunther

— THE COMPLETE SUMMARY

Portrait of the Customer As Centaur

A centaur is a creature from Greek mythology, with the head and torso of a man joined to the body of a horse. The centaur is an apt metaphor for the new breed of hybrid consumer who combines timeless human needs with new technology. This consumer is a combination of traditional and cyber, rational and emotional, wired and physical.

Centaur connects with companies and other people in a freeform, self-organizing, organic fashion — they divide their shopping cart and information gathering between the online and offline world. They pick up their morning newspaper from the curb and buy milk at the grocery store, yet they also look to the Internet for information and buy food from Peapod, an online grocery store. They make purchases at both Nordstrom.com and the Nordstrom at the local mall. In other words, they make connections in ways marketers cannot control. Marketers never before had to get inside a consumer's head the way they must now, in an effort to determine each individual's "marketplace," rather than the marketplace of segments of consumers.

New and emerging technologies have changed the way customers behave — what they expect and how they view their relationships with corporations — both online and offline. These centaurs are radically transforming the practice of marketing. They have enduring human desires, but these have been sharpened and attenuated by the promise of technology. These needs and desires include the following:

- **Desire for uniqueness, personalization and customization.** Centaurs buy customized products online, yet they also purchase off-the-shelf products at their local grocery or department stores. This circumstance presents a number of challenges to companies, such as how to offer the right mix of standard and customized products, and how to offer the right balance of personalization and mass marketing messages.

- **Desire for social interaction.** Centaurs meet friends in social (offline) environments, but they have also created online communities, where they can exchange ideas, recommendations and information, on everything from books to medical advice, and beyond.

Companies must find ways to tap into these communities, even creating their own, to meet these consumers on their own terms.

- **Desire for convenience and channel options.** Centaurs want to walk in or log in, interacting with companies wherever and whenever they desire, and to do so on their own schedule, not the company's. Challenged with this need for convenience, companies must combine multiple channels into a single, seamless interface, and find accurate ways to anticipate how and when consumers will interact with them.

- **Desire for value.** Centaurs mix purchases in physical stores with online markets at will. They search for competitive prices, even going to online auction houses (like eBay) to get the prices they want. Companies must reshape their pricing strategies in an environment in which customers have many more pricing options, and reshape their outlets for information in ways that add value to purchases.

- **Desire to make better decisions.** Centaurs will go to sites like MySimon to comparison shop, as well as name-your-price sites like Priceline to find the best deals. To address this issue, companies must put more tools into customers' hands, enabling them to make more educated decisions and adding simplicity to the act of comparison shopping.

These five interrelated opportunities created by the centaur require companies to rethink their approaches to marketing. ■

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Myths and Realities

As we pick through the wreckage of the so-called dot-com “revolution,” there is one piece of the puzzle that is consistently missing — the consumer. The revolution’s eventual collapse is not just the story of irrational exuberance and overzealous investors, but also the story of a generation so enthusiastic about technology that it often lost sight of the people at the center of it. During the boom, the loudest voices heard were those that proclaimed that everything would be changed by the Internet. During the eventual bust, these voices were overtaken by those that claimed everything would remain the same.

They were both wrong. Both perspectives were based on myths about consumers, myths that did not take into account the fact that consumers changed in fundamental ways, but also retained some of the more traditional characteristics and needs they always had. While some segments lean more toward the extremes (completely cyber-centric vs. completely traditional), the reality is the hybrid, the centaur. It is this convergence of old and new that drives the convergence of strategies in marketing. To better understand this convergence, it is necessary to investigate some of the myths implied by such extreme views of the consumer.

Myths of the Traditional Consumer

Among the myths of the traditional consumer that have been challenged by the Internet are the following:

- **Only the elite want customization.** Consumers are no longer satisfied to let Henry Ford dictate the color of their cars (black), in exchange for affordability. Today, they expect to receive a product tailored to their desires without paying extra for it.

- **Price is the bait set by the seller.** Traditionally, companies dictated pricing, with customers as passive recipients. No more. Consumers today want to do the hunting and the pricing, and have turned to online name-your-price and auction businesses to accomplish this. Consumers are now active partners in pricing strategies: Companies must respond by developing a system for dynamic interaction and value-based pricing.

- **The consumer is on the couch.** Consumers are no longer passive recipients of information and marketing messages. They can actively search for the information they want, and expect to have interactive experiences that inform, educate and entertain them.

Multi-Channel Experiences

- **Location is key.** The goal in the past was to find a prime location and offer attractive hours to drive the consumer to you. Today, consumers can buy goods and services quickly from virtually any location. This

requires companies to offer integrated, multi-channel experiences that enable consumers to interact with them in any way they choose.

- **Consumers are islands.** Companies assume that consumers act alone in making their decisions. The reality is that consumers are now increasingly connected to one another in virtual communities. This requires companies to build and manage relationships with these communities, not simply with individuals.

Myths of the Cyberconsumer

Among the myths of the cyberconsumer that have been illuminated by recent dot-com failures are the following:

- **People do not want to be troubled with shopping.** At one time, some people saw the Internet as a wonderful world in which machines would take over the hassle and burden of shopping. The reality is that people like to shop — just witness any shopping mall on a Saturday afternoon.

- **Efficiency is all that matters.** At one time, some people thought the Internet was going to remove inefficiencies from the transaction experience — no more wandering around or between stores, looking for products or the best price. The fact is, consumers value other things in their shopping experiences besides efficiency — finding value buys, couponing, even reveling in searching through stacks of items to find the right one (as in antique shopping). For some, the sheer inefficiency of a shopping experience makes the effort worthwhile.

- **Consumers want to get the best price.** Cheap is not always best. Overall, consumers look for a fair price, not always the best price.

Consumers are either online or offline. Consumers have finely coordinated their online and offline behaviors into a seamless whole that serves their needs. Sellers should be adept at balancing their online and offline businesses.

The New Color of Convergence

- **Consumers’ behaviors are not black and white, online or offline.** In the new reality, online and offline converge to create a new color, transforming the original theories of each into something different. Businesses must respond by understanding the changing centaurs and designing a business strategy around them.

The right balance of “bricks” and “clicks” depends on both the type of business and its consumers. Businesses must take their understanding of their audiences’ complex behaviors and build products and services to meet those needs. The consumer must be at the center of this process. ■

THE FIVE C'S OF CONVERGENCE

Companies are in the midst of the realization that, with new technologies, consumers can do things they never could do before, and with these new capabilities, they are changing in ways heretofore unimaginable by combining their traditional behaviors with the constantly advancing possibilities of the technology. Indeed, there is a convergence of the consumer with the technology, in five key areas:

- “Customerization”
- Community
- Channels
- Competitive value
- Choice tools ■

‘Customerization’

In the industrial age, consumers shaped their expectations around the limits of technology. For example, they were willing to accept a few basic mass-produced models of cars in a single color (black) for a lower cost and quicker turnaround. As technology advanced, so too did companies’ abilities to tailor products to the desires of specific customers — lots of them. This mass customization has tended to focus on the manufacturing technology, and not on the customization of marketing, which replaces anonymous transactions with deeper, more interactive relationships with consumers that are built over time. These relationships — the central tenet of customerization — go beyond the customization of products for customers. Companies must now give customers the ability to also customize positioning, pricing, marketing communications and experiences, as well.

Consumers can have very different reactions to personalization and customerization. Sometimes, they even prefer standard, off-the-shelf products to similar products with many different customizable options, for a number of reasons:

- **Fitting in with the crowd.** Very often, there is more value in being part of a crowd by owning a product everyone can obtain than in standing out with a customized product. This also extends to marketing, where one can create a sense of connection through mass marketing messages.
- **Experience.** Very few customers are willing to purchase a vehicle without the experience of taking a test drive, but more will take advantage of a simulated experience when choosing other types of products, such as eyeglass frames. Some experiences can be simulated in an online environment, while others cannot.
- **Uncertainty.** When you buy something off the

Southwest Airlines Asks the Next Question

Southwest Airlines has created one of the most user friendly and powerful travel sites by continuing to ask the next question. If you book a ticket, it asks you if you want a rental car and hotel room. Since it already knows your destination, it immediately presents you with a set of options for that destination. This not only reduces steps for the user, but it means the company is thinking one step ahead of the customer — the essence of personalized service.

shelf, you know exactly what you are getting. When you design a product from scratch, you have created a prototype that might not be exactly as you envisioned it.

- **Unarticulated needs.** Sometimes customers simply don’t know what they want until they have seen it.

So, how can companies effectively and creatively combine standardized and customized marketing messages and experiences?

Tailoring Marketing Messages

- **Integrate online and offline customization.** There are many opportunities for seamlessly integrating a customer’s online and offline customization options. One way to accomplish this is by capturing buyer preferences in a store and moving them online, or using online information to shape the store experience.

- **Ask the next question.** Use customization technology to bring into the transaction any complementary offerings you have to offer, and to tailor your marketing messages as part of the interaction with customers. Invite the customer into the lab. Companies can give R&D a direct pipeline into the market by inviting customers to provide feedback on product designs before they are manufactured.

- **Use customized choices to inform mass production.** By combining customer configuration with a mass production strategy, companies can use the insights gained from customized products to shape their mass-produced line. Customer design choice might even portend emerging trends.

- **Increase digital content.** By increasing the digital content of offerings, companies can make it easier to customize at low cost. This works even for non-digital products, and online customization interfaces can be used to give customers a wide range of options that are only a simple mouse click away. ■

Community

As “social animals,” we all desire a personal connection with other people. This connection has traditionally been found in physical communities — a family, a neighborhood, a church or a work-centered community. Technology has, unsurprisingly, changed the way we think about communities. As a medium for connection and interaction, the Internet offers an entirely new channel for communities. These virtual communities have the potential for greater geographic scope and narrower focus than most offline communities.

The emergence of virtual communities creates several opportunities for convergence, including the following:

Physical and virtual communities. This convergence offers more powerful perspectives on reinforcing these communities than we gain by looking at either one in isolation. Companies can build interactions and bridges between virtual and physical communities by doing the following:

- **Gathering lost tribes.** Take natural physical communities that are diffused and give them a place to meet online.

- **Creating parallel universes.** Sometimes, the physical community becomes the basis for the virtual community, and vice versa.

- **Engaging in cross-pollination.** Even when parallel universes are not created, the interactions in the virtual community may lead to interactions in the physical community, and vice versa. Consider eBay, where the virtual interactions of the community result in the physical exchange of goods.

Economic and social elements of communities. One of the key convergence challenges as virtual communities develop is to give them viable economic foundations without eroding their social fabric. This is not a new challenge — when communities are exploited for

economic gain, their social strength is undermined. Companies must balance the economic and social objectives of the community by doing the following:

- **Embed the economic in the social.** In the best travel service sites, for instance, the social community is directly integrated into the transaction, creating both economic and social value. Whenever possible, embed the revenue streams in the life of the community.

- **Tap into the energy of the community through community-generated content.** The interest and passion of a community’s members are what give the community its energy. When interacting with a community, a company must give community members a sense of ownership and involvement in the success of whatever endeavor they pursue.

- **Build bridges to existing communities.** Many virtual communities are already being created without any economic purpose, merely for the social and psychological value of connecting with others. Companies need to ask themselves how they can connect to these communities.

- **Sustain trust.** In any interaction, trust is crucial, but particularly when making a social community more economically focused. ■

For the issues involved in developing community strategies go to:
<http://my.summary.com>

Channels

The need to have clicks and bricks is now fairly obvious, and the need to create a coherent customer experience across multiple channels is also becoming increasingly obvious. People have always had the desire for speed, convenience and relevant channel options. But, a failure of integration or operation of the online and offline businesses can create slow and inconvenient interaction that undermines the reputations of both the online and offline businesses. Putting the right pieces together in the right way is critical.

To do this, companies must be mindful of how they go about integrating customer experiences. Many companies started with the technology and ended up with disjointed customer experiences. Others started with business models, and still could not meet customer needs. The most important place to start is with the experience of the customer, by doing the following:

- **Let customers decide how they want to interact.** When Barnes & Noble places an electronic kiosk in a store, it gives customers the flexibility to do research and conduct business in the manner (online or offline) they choose.

iVillage Sets Tone for Trust

People know when they are being lied to, or when something that is represented as a norm is actually far from it. iVillage understands this, and carefully chooses advertisers for their fit and commitment to building a relationship with the site and its members. The company is also very cautious about using models and other celebrity endorsers. It wants to set a very different tone than magazines that are targeted toward women. Says iVillage founder Candice Carpenter, “Women have had magazines blasting perfection at them. Our goal is to let women be focused on themselves.”

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Channels

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- **Understand the context and timing for interaction.** A channel often affects the type of activity and interaction that occurs. The context of specific channels affects consumer behavior, and by understanding this context, companies can direct their offerings to the best channel.

- **Create seamless interfaces between online and offline experiences.** Increase the ease of moving from online to offline transactions and back. Enabling customers to return unwanted merchandise purchased online to physical stores is just the tip of the iceberg. ■

Competitive Value

The centaur is reshaping the value equation, and companies that can best address this fact are actually accelerating the process as they meet new consumer needs. While we often focus on price and product when we think of value, there has always been much more to value than these simple components.

With the rise of the Internet, some of the other sources of value have been transformed or become more important. These sources include the following:

- **Price.** Price is changing in fundamental ways online with new dynamic pricing strategies, such as auction models and name-your-price outlets.

- **Service.** Typically, personal service has been very costly. The Internet has the potential to offer online information and customer service at a much lower cost.

- **Brand.** The trusted value of a strong brand becomes more important to the value equation when the increasing product proliferation both online and offline is considered.

- **Convenience.** The ease of doing business with a company is an important component of value. The addition of new channels offers not only a new set of shopping options, but also an increase in the convenience of the entire buying and consumption cycle.

- **Novelty.** The novelty of being a first mover or opinion leader also adds value for consumers, as witnessed by the high prices paid for early versions of the Palm Pilot. The Internet can capitalize on its ability to be rapidly reconfigured and customized to generate value by creating something new.

- **Peace of mind.** Security and trust add value as well, particularly in the virtual world, where business is transacted without a physical connection.

But, even this expanded concept is only part of the value equation in an Internet age. There is also a “convergence value” in the way online and offline business-

es work together. Well-coordinated online and offline strategies may give customers integrated solutions that create more value than the sum of the parts. On the other hand, mismatched efforts can erode value.

Convergence value comes not only from combining online and offline strategies, but also in the way companies combine them. This value is increased through two types of convergence:

- **Buyer-initiated and seller-initiated pricing.** How can you use and combine traditional pricing and new dynamic models in ways that increase value?

- **Offer flexible seller-initiated pricing.** Online prices can be tailored to specific users and raised or lowered instantly for assessing and responding to consumers’ price elasticity. Further flexibility can be added through the use of dynamic coupons, particularly e-coupons.

- **Offer buyer-initiated pricing.** A more radical form of pricing is the rise of customer-set pricing, of which several models exist — from auctions and name-your-price models to fire sales and barter models.

- **Offering and experience.** How can you draw upon all the senses in providing information, education and entertainment to enhance the product/service offering?

- **Increase novelty and entertainment value.** The interactivity of the Web offers many opportunities to create a lively experience for consumers, in addition to providing them with products — an experience that goes far beyond the experience of the product itself.

- **Create experiences that reinforce the brand.** Volkswagen AG created its own 24-hour online radio station that caters to the carmaker’s youthful buyers and ties in with the company’s branding and the experience of driving the car. Volkswagen’s television commercials contain the same music that is played on the online radio station.

- **Create pathways to entertainment that run from offline to online and back.** Makers and sellers of goods can turn to the Internet to generate invaluable grassroots or word-of-mouth interest in a product. ■

To see how entertainment marketers use the Internet, go to:
<http://my.summary.com>

Choice Tools

The Internet is a rich and active source of information that consumers use in making key decisions, and these tools have arrived none too soon. Consumers are overwhelmed with choices and data, both of which have been accelerated by online technologies, creating the need for search engines (like Yahoo, Google and AltaVista) to find information, decision-making tools

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Choice Tools

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(like MySimon and Expedia) to transform that information into knowledge, and life management tools (like Microsoft Office and My.Yahoo.com) that help consumers make sense of it all.

Centaurians are no longer willing to accept what companies or even non-virtual advisors, such as doctors and brokers, might tell them. These consumers expect to be able to find their own information and to call on an experienced personal advisor when they have the need. The rise of decision-making tools and the subsequent changes in the consumer present several convergence challenges for marketers.

Balancing Decision-making Tools and Experts

How can companies combine online tools and personal experts, both online and offline?

- **Take the tools to the point of decision.** Portable technologies, such as Personal Digital Assistants, cellular phones and the like, provide opportunities to put decision-making tools right in the hands of consumers when they need them.

- **Charge for advice and decision support.** Develop and experiment with more sophisticated decision-making tools, and use value-based pricing (directly or indirectly) for customers who use their enhanced features.

- **Look for ways to put value-added tools into the hands of consumers.** Put tools in place that match customer preferences with products or information, or that open up existing internal corporate tools to customers, or that provide other mechanisms to enhance the value of a transaction.

Managing Company Messages And Third-party Information

In addition to combining online tools and other expert advice, companies must also combine more credible third-party information sources with company information and marketing messages. To accomplish this, companies must do the following:

- **Provide both company and competitor information.** Customers can find competitive information with ease: Wouldn't you prefer they be on your Web site when they find it, and not your competitors' Web site?

- **Offer third-party evaluations.** Provide customer comments, consumer feedback, independent reviews and other types of third-party sources that prove to an audience that content is not controlled by any overt bias.

- **Make biases clear.** Make a clear line between expert advice and promotion. Often, prominent placement on a Web site is seen as an expert recommendation by consumers, who will cry foul if they feel they are

being manipulated or misled.

Combining Company-pushed Messages And Customer-pulled Information

Whereas consumers were once passive recipients of messages delivered by companies, centaurians are now empowered to find the information they want and need most. Companies need to rethink their communications strategies in a variety of ways, including the following:

- **Recognize the limits of marketing messages.** The more information and decision-making tools consumers have at their fingertips, the less control and influence companies have over this information.

- **Build credibility by building trusted brands.** Companies must create a convergence of online and offline branding that reinforces both.

- **Focus marketing messages on the intangibles and affect.** Whereas messages built around products and prices provide tangible means by which consumers can compare companies, marketing messages can be more effective if they move from emphasizing information and increase emphasis on affect, or positive associations with a company. ■

For an example of how Amazon.com misread customer expectations, go to: <http://my.summary.com>

Mastering Convergence Marketing: Redefining The Four P's

Modern marketing and its tools came of age during the heyday of television and mass markets. Convergence marketing comes of age during an age of customer empowerment, interconnectivity, a time of increasing customization, customer-driven processes and interactive communication.

Marketing majors used to learn the four P's of marketing — product, price, promotion and place — that, while not comprehensive, have been a convenient cornerstone of traditional marketing strategy. Each of these P's continues to be important today, but each has been transformed by the Internet, raising new challenges, applications and opportunities. Consider each in turn:

- **Convergence of product.** The whole definition of the product is changing, from the convergence of physical and digital products to the bundling of products and services into a total customer experience. Given the rapid pace of technological change and obsolescence, companies can benefit by building platforms that can be easily updated, giving customers the opportunity to cus-

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Mastering Convergence Marketing ...

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tom-design products.

● **Convergence of price.** Companies have an opportunity to experiment with new pricing strategies and create a portfolio of consistent pricing models online and offline. Ongoing and experiential models lead to pricing models based on subscriptions, rather than transactions, creating recurring revenue streams for companies, rather than a once-shot transaction. This ongoing, value-based pricing exists not only in the business-to-consumer realm, but also in the business-to-business realm.

● **Convergence of promotion.** Promotion can now be integrated into an immediate and ongoing dialogue between a company and the consumer in myriad ways — from currently available interactive advertising, to a future where consumers will be able to access information about clothes or furniture seen on their favorite television programs by clicking on those items. The spread of technology, like interactive television, mobile phones and other cutting-edge tools and toys, will create many opportunities for increasingly creative approaches to advertising.

● **Convergence of place.** The concept of place has traditionally referred to distribution. In the digital age, however, consumers expect increased speed and convenience, and to be able to find products whenever they want, from any given location on the globe. Companies must retool their logistics strategies to meet these expectations — delivering products directly to the customer's door, and focusing on the entire network that is required to shape and reshape the supply chain in response to new challenges.

Convergence Marketing Strategies

Some other marketing strategies to consider include the following:

● **Reverse segmentation.** Segmentation is changing with the rise of personalization and customization. With sophisticated data-mining, companies have been able to move from mass markets to segments to markets of one. They are also using this customer information and the tools that gather it to personalize the customer experience, actively tailoring their offerings to the perceived needs of individual customers. These micro “segments” provide plenty of challenges for companies concerned with completely understanding the shifting and occasionally quirky needs of individual customers.

● **CRM.** Customer Relationship Management (CRM) is the deliberate process of building the systems and processes for focusing the organization on the customer. It builds bridges between internal systems and external operations. Every touch point with customers meets a coherent interface in CRM, from customer service to

marketing to sales, and beyond. This focus on the customer allows organizations to build and strengthen long-term relationships. ■

Pathways to Convergence

Convergence requires a fundamental set of difficult changes (which we can call “c-changes,” or convergence changes). Indeed, implementing convergence strategies entails a number of significant challenges, among them:

● **Do not make c-change an IT initiative.** Just because your change involves business practices transformed by the Internet does not make your c-change initiative a strict IT initiative.

● **Anticipate resistance.** Everybody loves change, as long as it is not done to them. Expect people to resist, and have responses prepared for each conceivable case.

● **Change business practices, not just technology.** New technology will not improve bad practices — it will simply make them faster. Do not automate existing bad business practices. Change these practices to meet your emerging, converging needs.

Embrace the Possibilities of C-Change

● **Do not be limited by past experiences.** Encourage the people involved directly and indirectly with your c-change effort to embrace the possibilities of it.

● **Make the path to change temporary.** When you bring together a team to make your c-change reality, make it known that team members will be returning to their original jobs in a finite period of time. Continuously focus on transformation, but don't make it an institution. ■

For more pathways to convergence, go to:
<http://my.summary.com>

Bell Labs Fixes Phone Systems Without Breaking Them

In 1951, the head of Bell Labs assembled his top researchers and informed them that the entire telephone system in the United States had been destroyed the night before, and that they — the researchers — had to rebuild the entire system from scratch, right then and there.

Of course, the system was fine. The Bell Labs head was simply challenging his people to think outside their normal frames of reference, to innovate out of perceived urgency. By challenging the researchers to identify new needs and plans for meeting them, many of the innovations we take for granted today (the Touch-Tone phone, Caller ID, cordless phones and more) were created.