

IMD Faculty

Mikołaj Jan Piskorski
Professor of Strategy and Innovation

Carlos Cordon
LEGO Professor of Strategy and Supply Chain Management

Research & Development

Shawn Fedun
Athanasios Kondis

In September 2015, almost 100 senior executives with diverse industry backgrounds and expertise attended an IMD Discovery Event on digital and social media. They had the opportunity to analyze how these media have changed the customer decision journey and how they should respond to leap ahead of their competitors.

Discovery Events are exclusively available to members of IMD's Corporate Learning Network. To find out more, go to www.imd.org/cln

What Have Digital and Social Media Done to Your Strategy and What Should You Do about It?



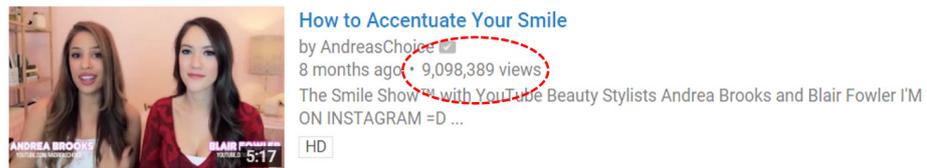
Today more than 3.2 billion people are online, and already in 2014 they spent more time on the internet than watching TV. As the world's population is 7.3 billion, we are only halfway there! The internet has empowered us to change the way we gather and share information. Social platforms – which account for about 22% of all time spent online – are at the forefront of this revolution. Social media is a huge and diverse phenomenon that is constantly changing. From mainstream platforms like Facebook, WeChat and Twitter to more specialized platforms like LinkedIn, Snapchat, Instagram and Match.com to thousands of smartphone applications, social media has changed the way humans interact with one another. It has also transformed the customer experience in both business to consumer (B2C) and business to business (B2B) industries. Today customers search on Google, watch YouTube videos, read blogs and product reviews, rank a product or service and share information with their friends on Facebook both before and after purchasing a product. All of this has rendered the traditional marketing funnel of awareness-familiarity-consideration-purchase-loyalty obsolete.

For Professor Piskorski, the customer decision making process is no longer a funnel but a journey, on which customers consider, evaluate, buy, experience and bond with a brand. This is particularly applicable to the consideration phase because now customers add more brands (rather than eliminate) as they go along, and in the loyalty (bond) phase, where customers are keener than before to collect and share information. The new customer journey has multiple touchpoints, both online and offline, which means companies have to be present in all of them. For this reason executives need to approach this challenge holistically – rather than having a Facebook strategy or a Google strategy, they need to devise a digital and a social strategy.

Influencers and your social strategy

Being present at every stage of the customer decision journey is a formidable task for most companies. One way they can address this challenge is by placing influencers – third parties who can raise awareness and facilitate purchase – at the core of their social strategy. In the online universe this can be done in two ways: 1) by having other people talk about your brand, and 2) by creating communities of users of your product and of potential customers. Blair Fowler, a 22 year old who started by posting beauty and style-related tutorials on YouTube, is an example of the first type of influencer. Her videos, which are frequently (but not always) company-sponsored, receive millions of views and she has 800,000 subscribers to her beauty channel and 500,000 to her Vlog channel (see **Figure 1**). Vloggers (who produce a vlog, or video blog) like Fowler are revolutionizing consumerism by connecting with social media users in ways that major beauty brands have not been able to exploit.

Figure 1: Your company's most powerful online partner – vloggers



The new customer journey has multiple touchpoints ... and for this reason executives need to adopt a holistic approach – rather than having a Facebook strategy or a Google strategy, they need to devise an online strategy and a social strategy.

Using social media to create communities is the second way that companies can seek to influence consumers. Many companies have discovered that Pinterest – a website that allows users to search, “pin” (i.e. place the image of an interesting product on the Pinterest board) and eventually purchase a product – is a great vehicle for increasing brand awareness and engaging with customers. Pinterest allows its members to interact through synchronization with the user’s Facebook and Twitter accounts, and via its messaging and “follow” functions. A typical user of the site is a woman (70% of Pinterest users are female) with a high income level, who spends more time on Pinterest than on Facebook and is highly likely to buy something she has pinned herself or seen pinned by others. Major kitchen brands, for example, use the site to advertize their “pins” and get customers as well as experts to talk about their products, with considerable success.

American Express is another company that has integrated digital and social initiatives in advertising, media relations and customer service among others. Its “Link, Like, Love” program (originally introduced on Facebook but since expanded to other social platforms) offers its customers a wide range of targeted promotions by merchants (such as get \$10 off when you spend \$50 or more). Furthermore, the application uses Facebook data, such as users’ “likes,” to individually prioritize the long list of offers and asks users to share the offer with their Facebook friends. The impressive results of this integration with Facebook have generated numerous click-throughs, which subsequently led to increased card usage and many new card applications at extremely low cost – since most merchants are willing to fund the discounts.

Other examples of linking customers’ social profile with their spending profile include Amazon’s Wish List and eBay’s

GroupGifts. WeChat, the most popular social platform in China, has gone a step further by offering a single platform for government, news media and companies (enhancing the ability to buy directly on its platform) and an integrated list of applications, including messaging and calling, social networking-WeChat Moments, photo sharing, GPS location and e-wallet services among others. In fact, according to Professor Piskorski, China is one of the most interesting places to observe how companies develop integrated digital and social strategies for competitive advantage (see *Figure 2*).

Winning in China with digital and social media

Selling consumer products in China is difficult for most Western companies. Lack of brand awareness (the country does not have a history of brands); inefficient distribution (retail largely relies on mom and pop stores); expensive advertising (it takes a lot of money to reach the target audience scattered across thousands of TV channels); and the fact that counterfeit products can be produced in no time are some of the reasons why a “Western” strategy usually collapses when applied to Chinese consumers.

But some Western companies thrive in this environment. For example, Reckitt Benckiser (RB), owner of Durex condoms, decided to go for an all-social, all-digital strategy. It relied on leveraging Weibo (Chinese Twitter, on which users gather news and post links and videos) for cheap advertising, engaging digital opinion leaders (nationally recognized personalities as well as Weibo users with large followings) and partnering with e-commerce platforms (like Alibaba Group) to reduce distribution costs. Selling something as intimate as a condom is difficult, so RB created “Little Dudu,” a cute and animated condom-like

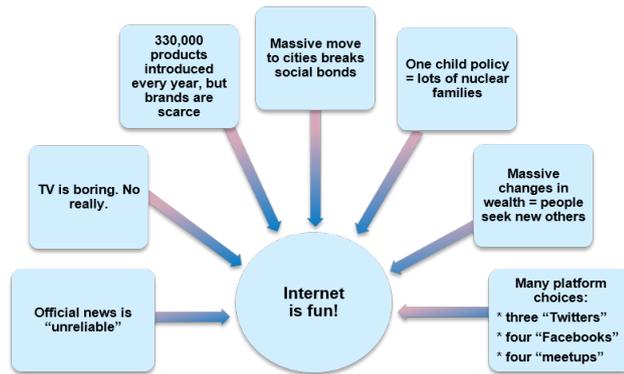
character, who delivered entertaining messages, pictures and videos, provided sexual-health information and posted about love and emotional support. This all-digital strategy paid off, as Durex became the brand of choice for affluent Chinese. The company charged \$5 for a dozen low-end condoms and up to \$30 for its most popular varieties. What RB did with Durex in China offers a clear-cut template for companies entering China and a demonstration that they can succeed if they start their strategy from scratch, as if all they have at their disposal is Twitter, Facebook, Amazon and eBay and a set of customers on their mobile phones.

Social media and the B2B world

The evolving social media landscape is also impacting B2B industries, which today account for 10% of all e-commerce sales – a number that is expected to rise. Some B2B companies are going further than simply “broadcasting content.” For example, Cisco has transformed the customer experience with its Certifications program, a comprehensive portfolio of certification modules. By creating a social learning community of Cisco-certified professionals, the company has found an effective way to engage with its base of loyal users, identify customer leads, collect ideas for product development and raise the barriers to entry for its competitors. At the other end of the scale, IT professionals benefit from Cisco’s program not only by upgrading their skillset but also by connecting with an exclusive group of senior IT executives. This gives them the opportunity to exchange ideas, find solutions to technical problems as well as land new job opportunities.

Is your company ready for the big data revolution?

As the amount of digital and social data increases, companies find it beneficial to start digging into them for competitive advantage. In April 2015 GE announced that it was divesting most of its \$42.7 billion financial services business (GE Capital) to invest in big data and analytics. A month



later, Spain’s BBVA, one of the world’s biggest banks, promoted its 49-year-old head of digital banking to the role of president and chief operating officer, declaring its ambition to “become the best universal bank in the digital age.” Such bold moves by traditional organizations show that big data is having a fundamental impact on companies’ business models. In fact, according to the Conference Board’s CEO Challenge survey, big data has been the number one topic for CEOs for the past two years. However, as Professor Cordón pointed out, our research shows that most traditional companies are still not leveraging big data to create better business models for themselves.

One reason for this is that the big data revolution – the exponential growth and availability of data – is transforming the business environment and changing the rules of the game. *Industry analysis*, a key framework for strategy formulation for the last 30 years, assumes that industries are well differentiated, something that holds less value in the digital age. For example, which industry does Apple compete in? Is it manufacturing, services, electronics or the music industry? Likewise, the concept of the *core competencies of the corporation*, which states that organizations should focus on what they do best (and outsource the rest) is becoming obsolete. The blurring of traditional industry boundaries and the fact that many companies act as partners to others (as opposed to competitors, suppliers or customers) makes the business environment an ecosystem, a network of organizations involved in the delivery of a specific product or service. In this environment, it is difficult to predict

Figure 2: The Chinese spend more time on the internet than people in the West

What RB did with Durex in China offers a clear-cut template for companies entering China and a demonstration that companies can succeed if they start their strategy from scratch, as if all they have at their disposal is Twitter, Facebook, Amazon and eBay and a set of customers on their mobile phones.

Our research shows that most traditional companies are still not leveraging big data to create better business models for themselves.

Big data is creating huge opportunities not only for existing companies that want to revisit their business model but also for entrepreneurs willing to innovate.

which strategy will be the winning one, since companies depend on their partners.

Pursuing different digital routes

Some companies are exploiting the advantages of big data by developing new services. Amazon has introduced “anticipatory shipping” – a system of delivering products to customers before they place an order. The company uses all the valuable data about its customers’ preferences and habits to predict what they want and ships the products automatically. The packages then wait at the shippers’ hubs or on trucks until an order arrives. Such a strategy is taking predictive analytics to the next level, allowing Amazon to delight its base of loyal customers. Other companies might need to take a more radical approach.

This is what Mediq, a major Dutch healthcare company, did when it was fighting to survive. Mediq was a distributor of medicines (supplier to retailers) and also operated a chain of pharmacies. In 2012, the Dutch government’s decision to deregulate pharmaceutical fees caused a 90% drop in the company’s profits. It had no choice but to rethink its business model. It decided to shift from “packaging and moving medicines” to “taking care of the patient” and changed its profit formula from “product-margin based” to “fee for service.” Big data made this change possible. Mediq estimated the annual number of hospital admissions due to inaccurate medication per patient, together with the total cost to insurance companies, and proposed to share the savings with insurers. The resulting deal accounts for about half of Mediq’s profits today. The company is now expanding its customer base to include medical doctors and homecare facilities and exploring new solutions such as wearable technology.

What happens when social media meets big data?

Big data is creating huge opportunities not only for existing companies that want to revisit their business model but also for entrepreneurs willing to innovate. Shawn Fedun noted that Strava, a California-based start-up, is a website and mobile

app used to track athletic activity (like cycling, running and hiking) via GPS. It is essentially a combination of an activity tracking and a social media platform that has proved popular with people interested in interacting with others by exchanging ideas as well as personal performance records. On Strava you can find the best local circuit for your activity, track your run or bike ride, compete with friends and other users across the world, and see what your favorite athletes are doing. Its value proposition of track-compare-competes has attracted both amateur and professional athletes. To deliver its value proposition, the company relies on a wide network of partners, including GPS and software providers, government authorities, local communities of athletes, and suppliers like bike manufacturers. Strava has access to tons of big data including GPS coordinates, users’ personal information (including health-related data) as well as information on activities like where a runner made a stop or what drink she had. Having recently secured venture capital funding, it is planning to expand out of the US and develop new solutions for users.

Digital strategies in the future

By now many firms have understood the importance of incorporating social and big data strategies into their everyday operations. But we are nowhere close to being done with the digital revolution. Artificial intelligence (like IBM’s Watson project) and the Internet of Things, whereby sensors connect and embed intelligence in billions of objects and devices all around the world, are going to affect the productivity, health and safety of billions of people. They are also going to result in numerous new products and services that will transform the customer experience. The winners will be those companies that can identify the disrupting technologies that matter and develop solutions that deliver value to customers. In many of these cases, having a social strategy – using social platforms to deliver social benefits – will be a key element of securing competitive advantage and a profitable future. Many companies have successfully embarked on this journey. Is your company next?