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Covering What Matters

Learning from Experience:
How Customers are Won and Lost and the Implications for Brand Management

Acquiring and retaining customers is what business is all about and many believe that good branding is crucial. But in this brief we show that brand is a consequence, rather than a cause, of sales performance. Customer experiences independently determine both revenue behaviours, like acquisition and retention, and brand perception. So image doesn't shape behaviour. Image merely reflects behaviour's underlying roots. By focussing directly on the events that influence customers, companies can short-circuit the brand blather and directly manage the components of their business that create value. Accordingly, this brief calls for fundamental changes to how companies formulate their retail strategy, including how brands are measured and managed.

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It might surprise you to learn that about $3Bn is spent globally each year on brand tracking. It might surprise you even more to hear that this money is largely wasted. Why? Because such trackers are both inaccurate and insensitive. And this $3Bn is only the visible waste. These trackers then influence commercial decisions, from above and below the line advertising to customer service and pricing strategy. Take one wrong turn in such a maze and you're soon a long way from where you need to be.

So what's wrong with current tracking practices and how can we track what's really driving customer behaviour? In this brief, using a supermarket case study, we introduce a new method, Experience Tracking. Unlike the conventional approach, by measuring people's experiences we can understand and predict what really matters: why customers purchase and why they switch. To all executives who routinely bin their monthly 200-page, bar-chart-heavy, brand health report, read on...

Knackered Trackers

A typical tracker is a timeseries showing how many people agree with a brand statement, (e.g. 'they offer good prices'). You can read more about the issues faced by traditional tracking on our blog[a]. But, in summary, trackers are often stationary lines that only rise or fall each month as a result of sampling noise, sunny day effects and their ilk. Figure 3 shows a classic example of a nearly flat line that bobs up and down from month to month.

Figure 1: The Brand Image Paradox

Prices \ Quality	Poor				Good
Cheap	0%	1%	1%	4%	8%
	1%	2%	5%	8%	4%
	1%	4%	9%	7%	3%
	1%	10%	7%	5%	3%
Expensive	2%	4%	4%	3%	3%

So why is tracking susceptible to noise given the large sample sizes? Figure 1 shows a typical survey finding that gives us a clue. The green diagonal shows how people *individually* rate cheaper stores as having better quality products and vice versa. That's counter-intuitive. Surely Asda doesn't offer better quality than Waitrose? But, in truth, people mainly just like or hate a store and any useful signal in people's brand responses are overwhelmed by this effect. So image tracking is an exercise in trying to quantify how respondents wobble off the 'love-hate' diagonal of Figure 1. Brand tracking is like measuring the height of a tiny ripple on a giant wave and that's the problem with traditional trackers.

Beggaring Belief

The cause of this problem is that brand perceptions, like many beliefs, don't exist. Beliefs are typically manufactured on demand. If we ask people whether they're happy with their love life and then if they're happy with life in general, their responses are 66% correlated. But ask them the same questions in the reverse order and this falls to 12%[b]. If beliefs about wellbeing pre-existed, their answers wouldn't flip-flop like this across contexts. Similarly, people don't have pre-formed beliefs about mobile phone coverage or bank service levels. Their responses to such questions are based on, in order of priority, what mood they are in, what you asked them earlier, whether they generally like the brand and, finally, what they think about the coverage or service levels. You have to unpick all that other stuff before you get to the thing you want.

Figure 2: Events Explain Images

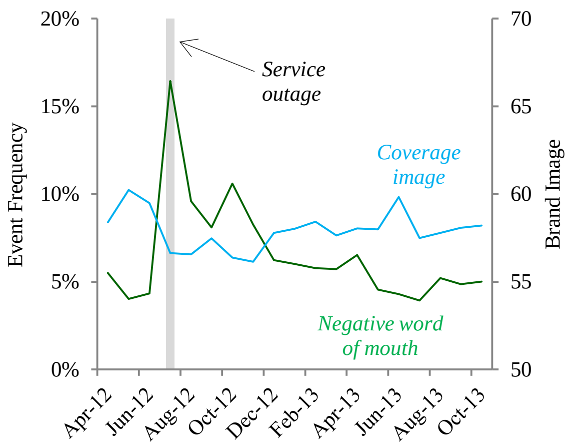
Figure 2 shows a smarter approach. Beliefs ultimately come from customer experiences. In our supermarket study we asked people about their most recent shopping trip and, separately, their brand perceptions. Figure 2 shows the relationship between them. For example, people who noticed a price rise, or an item that was cheaper at a competitor, had a worse price image of the store (only the filled bars are statistically significant).

The results in Figure 2 make intuitive sense. Price events drive price image but not service image and vice versa. The bizarre association between price and quality in Figure 1 has gone. Furthermore, out of hundreds of in-store and at-home events, we can identify those few that drive each image. Manage these and you manage your brand. For example, note the negative price image impact of items coming off promotion. Promotions may swell baskets in the shortterm, but they corrode footfall in the medium-term. They damage price credibility and being caught out by an off-promotion price is memorably annoying. Ask my wife about baby wipe 'hi-lo' pricing when you have half an hour to spare. Promotions are a drug. Supermarkets are addicted. As James Thurber said of martinis "two are too many, and three are not enough". In 2003 Asda didn't do promotions. By 2008 they were running about 2,000 per week, to no noticeable effect other than losing their CEO in 2010.

Experience Tracking

Trackers track the wrong thing. What companies need to track are customer experiences. So, in an approach that we've soundly coined 'Experience Tracking', instead of asking for perceptions, people recall these events. Because people's memories of concrete events are more objective and reliable than their image beliefs, they are less noisy and more sensitive. Figure 3 shows how negative word of mouth spiked during a recent O2 outage. And O2's traditional brand image measure? It dropped a little, but the movement was nowhere near as attention-grabbing.

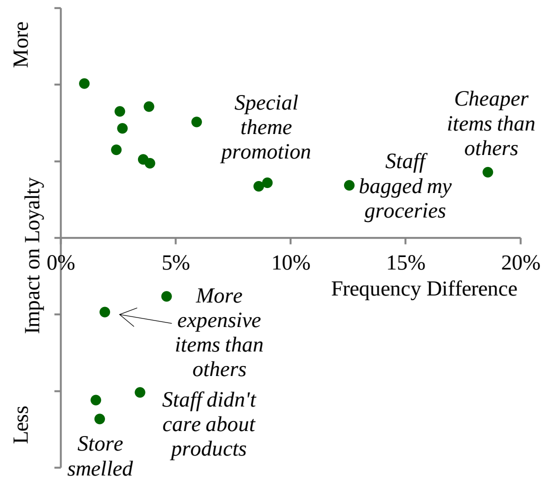
Figure 3: Mobile Phone Tracking



Experiences can either be reported directly in the management 'dashboard' or used to refine other measures. For example, based on people's responses to the statement 'I couldn't get the item I wanted' we have questioned the accuracy of traditional supermarket availability measures, which don't differentiate between light bulbs and bananas. But if you are a supermarket that runs out of bananas, what are you playing at? Likewise, pre-pay mobile Experience Tracking has been used to entirely overhaul the design and interpretation of a global mobile phone provider's weekly sales report.

Experience Tracking can also be used to predict longer term customer revenue behaviours like retention[c]. Figure 4 uses events to predict loyalty. Each year about 10% of us change our 'main supermarket'. The vertical axis shows that loyalty is lower for people who experience smelly stores, uncaring staff or expensive items and higher for those who encounter helpful staff, noticeably cheaper items, or Artisan Baking Week. The horizontal axis then shows the difference between the incidence rates at the highest and lowest frequency brands to gauge the materiality of each event.

Figure 4: Events Explain Behaviour

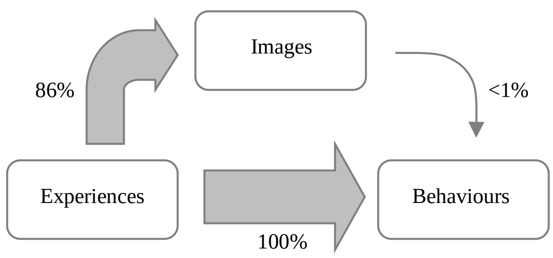


As such, the events in Figure 4 can be combined, using these fitted weights, into a 'synthetic' loyalty tracker that predicts long-term retention. Because of switching barriers, such as location, synthetic loyalty tells you how many people *want* to leave, even when that isn't apparent from the trade figures. Like a Eurovision Song Contest entrant, many people from your country may not like you. But they are basically stuck with you. So, sure, they're buying your stuff now, but what happens when an Aldi opens next door?

Image, Schmimage

Should you care about old-style brand images at all? Figure 5 says 'no'. As we've shown, experiences can be used to predict both brand perceptions and customer behaviours. But once you explain behaviours with events, the images contain no *further* information[d].

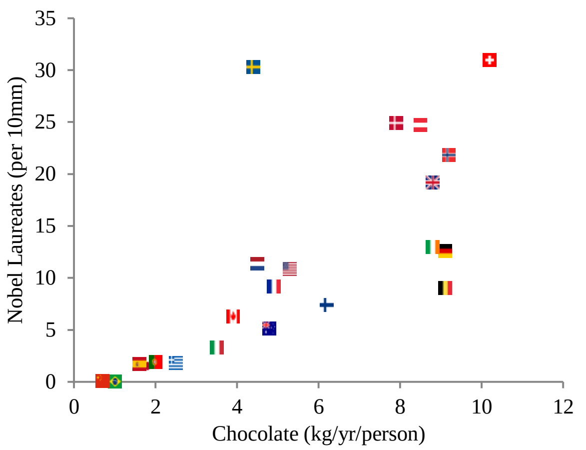
Figure 5: Images Don't Explain Behaviour



So any relationship observed between images and behaviours is due to both being caused by events. Brand images are a shadow of customer experiences and those experiences are all you need to know in order to predict behaviours. Accordingly, tracking images is a comparative waste of effort and management attention when you could be Experience Tracking instead.

Figure 6 further illustrates how images can correlate with, but not cause, behaviours. Nobel Prizes are correlated with chocolate consumption[e]. But Nobel Laureates aren't especially famous for their chocoholism and guzzling chocolate doesn't make you clever. It isn't Willy Wonka's Theory of Relativity. The answer is, of course, that there is a third cause, like wealth, which generates both outcomes.

Figure 6: Correlation Isn't Causation



Before we are deafened by the agency howls of protest, let's clarify two things. First, in this framework adverts are still events. It's not that 'image management' can't influence behaviour. But we don't need brands to explain *how* adverts work. Instead, we can simply track the advert experiences directly. Second, we aren't saying image should be dropped entirely from trackers. Images, along with behaviours, are caused by experiences. So, like sales figures, images may be useful performance indicators. We just need to engage in a bit of what Gwyneth Paltrow calls conscious uncoupling. We've had a long affair with images, but it's time to move on and create trackers that are more aligned with consumer psychology. This means shifting focus from measuring brand beliefs, which don't exist, towards measuring customer experiences, which do.

Summary

Our research shows that many of the metrics that managers traditionally use to track performance are flawed. These measures are motivated by unrealistic assumptions about how people process information and make purchasing decisions. Like Alice, people may mean what they say, but don't say what they mean. The experiences that *actually* shape people's behaviours aren't the same as the beliefs that people *think* shape their behaviours[f]. A better approach is to adopt Experience Tracking:

- *Events:* Identify the main revenue driving events and track their frequencies across competitors.
- *Weighting:* Establish how events drive revenue behaviours and create synthetic timeseries.
- *Extend:* By losing all but the main image measures create room for innovation (e.g. emotion tracking).

These relatively modest changes will deliver a big impact. Tracking will become more sensitive, timely and actionable. Experience Tracking scorecards will incentivise staff to build long-term value. Extending the survey will provide a wider portfolio of business diagnostics. And best of all? You get all this in a succinct and insightful monthly report that you will both read and look forward to receiving.

References and Footnotes

a. You can find our blog at www.dectech.co.uk/blog/brand_practice including some discussion of tracker noise and sunny day effects under the post 'Is that tracker really moving?'

b. This example is taken from Strack, F., Martin, L. L. & Schwartz, N. (1988). Priming and Communication: Social Determinants of Information Use in Judgements of Life Satisfaction. *European Journal of Social Psychology, 18,* pp: 429-442.

c. Indeed events can have an astonishing influence on behaviour. The title alone of Carter, T. J., Ferguson, M. J. & Hassin, R. R. (2011). A Single Exposure to the American Flag Shifts Support Towards Republicanism up to 8 Months Later. *Psychological Science, 22*, pp: 1011-1018 tells you all you need to know.

d. Technically, the R^2 of predicting Intention to Switch (ITS) using experiences is 14%, images using experiences is 12%, ITS using images is 7% and the residual of ITS, after prediction with experiences, using images, is 0%. This also highlights the noise at work, albeit images are twice as noisy as events. ITS was validated based on subsequent actual switching.

e. Messerli F. H. (2012). Chocolate Consumption, Cognitive Function and Nobel Laureates. *New England Journal of Medicine, 367,* pp: 1562-1564. Against our narrative, the authors actually do try to prove that chocolate consumption facilitates ground-breaking research. The average Brit eats 9kg of chocolate per year and that's twice the amount eaten by an average American!

f. Lewis Carroll's March Hare and Mad Hatter provide a lesson in logic. They claim that 'saying what you mean' isn't the same as 'meaning what you say' because 'seeing what you eat' isn't the same as 'eating what you see'. Try this line out at your next offsite breakout group. You're welcome.