Interview

Customer
first
thinking.

Transforming Marketing Strategy

An Interview with Niraj Dawar, Professor of Marketing, Ivey Business School

Niraj Dawar:

Niraj Dawar is the Professor of Marketing at Ivey Business School, one of the premier business schools in the world. He is the author of the book *Tilt: Shifting Your Strategy from Products to Customers.*

In one survey after another marketing leaders cite driving growth as their biggest challenge. Judgement of a CMO's performance invariably boils down to one measure: the year-over-year increase in brand sales. And as much as marketers have glommed on to the idea of customer experience as a differentiator, they are still mainly accountable for selling more stuff to more people.

That's why marketing strategy and planning, according to Forrester Research, "remains stubbornly old school". Marketers see their job as spear carriers for the brand, leading the hunt for new customers. The only thing that's changed from past practices are the KPIs: Engagement now tops ad impressions – social shares trump share of voice. But the goals are still the same: create top-of-mind awareness; lead people down the path to purchase; get them to convert.

No wonder the idea of putting customers first seems so abstract. Marketers are still caught up in the game of brand messaging. That game was relatively easy to play when the choices were confined to broadcast media. But today marketers are forced to spread their dollars across a broad mix of channels, hoping to catch customers at exactly the right moment. The problem: Messages go unnoticed in an ever-expanding universe of content. Audience attention is fleeting, measured in seconds, not minutes. So how do marketers get off this merry-go-round? What should their true role be? How do they lead their organizations out of the digital wilderness? And how, in fact, do they become more customer-centric when they are still organized around brands and products?

In his book "Tilt", Niraj Dawar, the esteemed Professor of Marketing at Ivey Business school, observes that "marketing, as a discipline, has been in a funk since the demise of mass marketing clipped its ability to move large numbers of customers to buy". He sees today's marketers as aspiring technicians "who understand data but not strategy". He argues that product innovation is not enough – it only results in incessant leapfrogging. His idea: Marketing must go from asking, "How much more of this stuff can we sell?", to "What else do our customers need?". Marketing's new role, he suggests, should be to "take charge of the entire customer relationship". Marketers today need to give up their channel-based strategic planning processes in favour of delivering value at every stage of the relationship. Instead of "playing a game of R&D roulette", as Professor Dawar puts it, marketers need to figure out which customer problems the brand is best positioned to solve.

ND **Naraj Dawar:** So let's look at the shift first. There's a shift from what I call the upstream activities of a company to the downstream activities of the company. What are the upstream activities? Everything that takes place before you get to the market. So, sourcing of raw materials, transformation of raw materials, the supply chains that bring those to the factory, the factory itself, the production transformation, even innovation, and new products, new features that are done, that are created inside the company. All of those are upstream activities. Downstream activities are activities that include customer acquisition, customer satisfaction, and customer retention. And so, having made this split between upstream activities and downstream activities, I noticed three things shifting from the upstream to the downstream over the last 25 years or so. The first is costs. Companies used to have huge investments in the upstream, in their factories, and so on. So, the imperative there was to drive as much volume through those infrastructure investments as possible. And now, companies are investing in the downstream activities. In other words, often the cost of building a customer base, the cost of acquiring customers, the cost of building a market far exceeds the cost of building the product, particularly when companies can outsource their production to third parties, where they turn their fixed costs into variable costs, and pay only for the product that they actually purchased, or when they've got mechanization and automation of the entire upstream so that they really drive down the operational costs. And the operational efficiency makes sure that the products are very cost effective and match the competition. The downstream activities, on the other hand, the costs of customer acquisition have ballooned in the last few decades, and the result is that you now have all of this investment in acquiring customers that you need to amortize. So, the first big shift is the costs from the upstream to the downstream. The second big shift is that consumers pay for value. They see value in the activities that you perform downstream. So, they are willing to pay a premium for some activities that you perform downstream. They are willing to be loyal for those activities. They come back and buy more because of those activities, and they are simply, you know, they stand in line, if you will, to buy the things that you do with the product in the interaction with the customer. And, you know, examples will include branding, for example, is a downstream activity where you take a product and transform it into a brand in terms of perceptions in the consumer's mind. And so, those are downstream activities that consumers value. The third shift that has occurred is the shift in sources of competitive advantage. It used to be that...proprietary sources of raw material used to be a source of competitive advantage, or large-scale production was a source of competitive advantage or low-cost operations in the factory were a source of competitive advantage, or even patents, and new product features, and the pace of innovation. Those were sources of competitive advantage. And I believe that today, the sources of competitive advantage also reside in the marketplace, in the downstream. An example that I use is that if tomorrow Coca-Cola's factories, their plant, their machinery, their fleet of trucks were all to go up in flames, Coca-Cola could probably obtain financing to start operations again tomorrow.

SS **Stephen Shaw (SS):** It's got such great brand equity.

ND There you go. And the brand equity resides not in the factory, not inside your four walls. It resides out there in the marketplace, in the minds of consumers. So, it's a distributed asset. It's a downstream asset. And so, if, you know, one day we were to wake up and 7 billion consumers around the world were forget the brand name, Coca-Cola, and all of its associations, Coca-Cola would have a much more difficult time starting operations again tomorrow. So, it, you know, it tells you that the downstream asset is very important, and probably even more important than the upstream assets that Coca-Cola owns. And those downstream assets were built over years and over decades of convincing consumers why they should trust Coca-Cola, why they should buy Coca-Cola. And so, the brand has left an impression on consumers' minds. That's the downstream asset. So, these three shifts, the costs have shifted downstream. The sources of value that customers see and pay for have shifted downstream. And the sources of competitive advantage now reside in the marketplace. With those three shifts, we have to pay a lot more attention to what's happening in the downstream. As organizations, as businesses, our businesses tend to be structured around the upstream. We have around our products and our production infrastructure. We have product budgets, we have product managers, we have product innovation, product pipelines. We know how to make better products. [9:54]

SS Product management, product marketing rules the enterprise.

ND Absolutely. And we measure profit on the basis of product. We move product volume, we incent sales forces on the basis of volume measures, and so on. So, everything is product and volume-driven, which are very upstream ways of thinking. And to start to think in the downstream, we have to really rejig how we structure ourselves, and how we measure success. So, if we organize ourselves around the customer, the first question we need to ask is, why do our customers buy from us, rather than from our competitors? What, you know, what are the motivations of these customers? Why are they coming to us? And the answers often tend to be things like reputation, trust, and ease of doing business, which are all downstream activities. These are not things that you can bottle and produce at scale. They have to be done with every individual customer.

SS The inverse might be equally interesting to explore, which is why aren't they buying from us? Particularly if you're in a number three or four market share position.

ND Absolutely. Why aren't they buying from us, and why are they buying from our competitors? And it turns out the answers, once again, tend to be downstream reasons. Reasons such as trust, reasons such as ease of doing business, reasons such as reputation, all of which are built in the downstream. So, when we look at how these three shifts are impacting business, it turns out that the shifts have occurred, but our managers are still managing for the upstream. The result is a bit of a disconnect, where managers are still looking at volume measures such as market share in order to determine success, rather than looking at things like share of wallet with the customers.

SS Customer share.

ND Customer share, depth of engagement with the customers, loyalty measures. Those types of downstream measures which would reveal a different picture. And sometimes, what happens is that an industry shifts downstream, but one or two companies remain focused on the upstream, and as a result, there's a disconnect. And then they wither over time. So, these shifts downstream I think are important. They're important to keep your finger on their pulse, and to evolve the organization, as well as the measures of success as sources of value and costs and competitive advantage shift downstream.

SS So this idea really is this echo of putting the customer first, thinking about their needs and organizing around those needs, and then being able to satisfy those customers across the spectrum of those needs to the degree that you're credible. Would that be a fair statement to say?

ND Yes. And it provides a rationale for doing that. And so, now that your costs have shifted to the downstream, you should really be measuring how many customers you have, but also how much you enjoy of their total spending. You should be measuring the loyalty that they have to you. You should be measuring the extent to which they come back to you to purchase. So, customer centricity involves understanding the customer's needs, measuring success in terms of downstream metrics, and making sure that the customer remains the focus of activities that add value, and that provide competitive advantage. [13:44]

SS So, marketing traditionally has held itself accountable around measures of attention and eyeballs more than anything. And to a large extent, it still does today. It's really a media mindset for the most part that marketers have. But the other challenge that I see too is that the command and control structure of most organizations comes from the boardroom to the C-suite, and marketing still is middle management. The tail does not wag the dog. How does an enterprise make that kind of pivot? Because it speaks...it cuts right to the heart of the purpose of that business and how it's organized. How does marketing influence that kind of pivot? How do they take the lead here in that conversation?

ND So, I think asking which activities generate the sources of competitive advantage is a good starting point. You start to see that customers are coming to you rather than to competitors, and customers are buying from you. Customers are paying a premium to buy from you. And customers are loyal to you for a set of reasons that are all based in activities that are performed in the downstream. And the more you can then feed those activities, the more you can burnish those activities, the better off you are relative to competitors in the playing field. So, for marketing, the task is really, on the one hand, to serve the customers, on the other hand, to convince the organization to organize its resources. Putting the customer at the center.

SS It's interesting because, in your book, you mention a company called MasterBuilders, which my company has had experience with, because our main client, BASF, actually purchased MasterBuilders, and folded it into their portfolio. And, BASF is an organization that has struggled with this exact challenge is, in a market where...a chemical market, whether it's for farmers, as in the case of the client we serve here in Canada, or in the construction business, it's a battle for competitive advantage for product and distribution, as opposed to what you're describing as a battle for the hearts and minds of customers. In this case, farmers, or in case of MasterBuilders, it's the construction trade. And just seeing the inner workings of these global companies, very difficult without that central command, saying, "This is the way we're gonna go." And they might mouth it, have the platitudes in their corporate annual reports, but in the end, it's gonna be executed by middle management. And the middle management is still compensated based on, guess what? How many units they're moving, what their market share is. So, again, I'll just go back to that question is, you can ask those provocative questions, but unless you challenge the very organizational structure and the purpose of the enterprise, how do you get there? What is the path to get there?

ND Okay. Let's walk through the MasterBuilders example and see what the elements are. So, MasterBuilders operates in a very competitive environment, in a market where its chemicals are no different than its competitors' chemicals. So, it doesn't necessarily produce a better product. And so, that becomes evident when they go to sell these products to buyers, which are construction companies that might have up to 200 construction sites running at any given time. So, when they sell these additives, they realize that first, they are a commodity, and therefore the entire pressure of the selling process is on price. And second, they are an additive chemical, rather than a principle chemical. So, they are treated as an afterthought in the purchase process. And the result is, you know, they only account for less than 3% of the concrete mix which is made at the construction site. However, they also know that if they are missing from that concrete mix, the entire mixer must stop. And if the mixer stops, then the construction site comes to a halt. And if that happens, that can cost up to $250,000 a day. The result is that there's a high risk associated with not the product, not the usage of the product, but the inventory of the product. Once you identify that the risk is in the inventory of the product, how do you solve them? [18:13]

SS In the supply chain.

ND In the supply chain, in delivering this product to the construction sites. How do you solve that? And so, what MasterBuilders does is, it constructs silos at every single construction site. It monitors those silos to make sure that the inventory levels are always full, and it makes sure it provides a guarantee to customers that they will always have the additives when they need them. So, they will never run out, and they will never have to stop the mixer, and they will never have to stop the construction site because of a lack of additives. So, these additives will be guaranteed, and they will be monitored by MasterBuilders. And now, MasterBuilders can plan the delivery route in such a way that minimizes its cost of delivery. Whereas earlier, construction site managers were calling MasterBuilders, saying, "Look, we need these additives on an emergency basis. We forgot to order because they were an afterthought. They're such a small part of the concrete mix that we.... you know." So, the result was you had half-load trucks being shipped out at a very high cost, and the shipping costs sometimes exceeded the price charged for the chemicals. Now you have planned routes, you have monitoring of levels, and you have guarantees that are possible to the construction site managers saying you'll never run out. It reduces the risk, it reduces stress levels, and it provides a certain form of value to the end customer that you can't necessarily provide by selling a better chemical. The overall lesson from the story is that you don't just look at what you sell, you look at how customers buy and use your product.

SS The full life cycle.

ND The full life cycle. And once you start to look at those downstream activities, you come up with sources of value that the customer would not have been able to point to, but you can now deliver against, and you differentiate from your competitors.

SS Two pronged is get the customer experience right by eliminating pain points. That's the journey mapping thing, but the other part of it I think is, what you're alluding to is value creation, producing value that didn't exist before by looking at where the gaps are in that sort of post-purchase phase of the relationship.

ND Exactly right. And what that does is, it suddenly turns a commodity into a highly differentiated product that the customer is willing to pay for.

SS Willing to pay for, totally. Yeah, absolutely. So, I just wanna ask, pick up on this a little bit though because, maybe I'm misinterpreting this, but the concept of downstream strategy is predicated, to some degree, on the idea that you have some critical mass of customers because if you want to extend the customer share, you better hope that your imprint or your participation in their lives, gives you license to serve them in other different ways. And that's fine for an established brand that might have that credibility and be able to present that case. But what happens if you're not an established brand, or you're trying to gain market share to get to customer share? What do you do in that case if you don't have that scope as you described, but aren't you back to scale in order to get to that point?

ND In the concept of the downstream, what is primary, what is most important, is to own the customer relationship. And once you do own that customer relationship, you ask, what else does this customer need? It does not matter whether you make what the customer needs. It does not matter whether you have a factory that churns out that product. All of that, whether you have it, or whether it's outsourced, is secondary to the fact that you own the customer, or you have that relationship with the customer. So, once you've built that up, once you've acquired the customer, the product will find a way to get to the customer, you will channel the products to the customer. Where you get the products is not relevant. What the products must do, however, is they must fit into the customer's perception of you as a supplier. In other words, the image that you have, the reputation that you have with the customer, should be consistent with the products that you're selling them. And, as long as they trust you to bring those products to them you have...Sorry, I messed up. [23:07].

SS You have license to, or credibility to sell them more. I guess a good example is probably Amazon, which starts out as a bookseller, which everybody recognizes in late '90s, early 2000s that they were a bookseller, but then eventually and very quickly, on the trust they've built around delivery, and pricing, and transparency, and reviews, edge into other product categories, and very soon are not simply a bookseller anymore. They are a seller of all things - an infinity aisle for people, and their perception changed. And then they go and buy.... get into the groceries business because they've got now such great brand credibility built in this concept of trust that actually gives them the license or permission, I should say, to explore a different channel into the home. Isn't that what you're talking about?

ND Amazon is a great example of that. And I think it's important to remember that when Amazon started, they weren't selling better books, they were selling books better. And that's...

SS I like that expression.

ND The ability to sell things better is transferable across product categories all the way to groceries. And that's what they've been doing over the last 20 years, is to transfer that skill, to make sure that the customer's costs of buying and their risks of buying are minimized, whether it's through one-click shopping, or through Amazon checkout-less grocery stores. The common element is a reduction in the customer's costs and risks of buying.

SS Ease and convenience.

ND Ease and convenience. There you go.

SS Speed, ease and convenience really being the formula for consumer success here. Let me ask you, and this is touching on exactly what I was talking about with respect to Amazon is, you know, once a company wins that trust, do they have permission to stray as far outside the market adjacencies as possible, or does that strain the credulity of the consumer that what business does that company have doing in this space? An associated question, and one I wrestle with because you had mentioned earlier at the start of this conversation, brand is downstream versus upstream, and it's an interesting question because today, does the brand today drive the direction of that business, or does the direction of the business drive the brand? [25:22]

ND Yeah. I think that's a great question. In the upstream world, in the upstream logic, your product range was determined by what your machines could make. And so, you would say, "What else can we make, given our infrastructure, given our factories, what else can we make?" Today the product range decision is much more about what else will the customer accept from us, or what else does the customer expect from us? And so, the product range may be much wider. The customer may expect not just a physical product, they may expect financing options. They may expect insurance, they may expect all sorts of ancillary products and services which you don't necessarily make, but you can supply as add-ons. And so, the question of product range is now very much downstream driven. So, to address your specific question, the constraint on how wide a product range we have depends on how much mind space we occupy in the customer's mind.

SS So, let's take a DTC example, like Warby Parker. Comes into the market, builds a customer base built on this flexibility and personalization of eyewear, and very quickly establishes, a sizable base, and makes a brand name for itself. Does Warby Parker now have license to go be on the eyewear market, to explore other ways to deliver value to their consumer base, and how far do they stretch that?

ND Once they have that relationship with the customer, the logical question is, what else does this customer need, and what will this customer accept from our brand? So, yes, there is room for product range expansion, and the direction of that product range expansion will be determined by how consumers perceive the Warby Parker brand.

SS It's an interesting question. I don't know if you've had a chance to read Beth Comstock's book on her experience at GE. It's a terrific read by the way. And she's very open and transparent about her experiences at trying to turn around one of the, you know, one of the behemoths of the industrial economy, GE, and it struck me that in those years under Jack Welch, they went and bought a lot of companies that weren't necessarily aligned with their core businesses. I mean, they started out, you know, creating lighting fixtures, not lighting fixtures but the whole electricity lighting business, and then started to evolve outward and got into financial services. And it was their exploration of financial services that eventually brought them down. So, there's a point at which I'm presuming an organization has to challenge itself with respect to, does that make sense for us to be in that business, or buy that business, or extend a line into this area that we frankly don't know very well? Is there a cutting-off point, I guess is my rough way of asking a question around this, around how far you stretch that brand value proposition?

ND Yeah. I think it's important to note that companies see their core competencies differently. Some companies see their core competencies in terms of engineering, industrial activities, upstream activities, and others see their core competencies in terms of managing the customer relationship. And when you are managing the customer relationship, the activities that happen upstream are either commoditized, and so, not different from your competitors, or they're outsourced so that they're performed by specialists, and you don't necessarily have a say in those. What you're managing is how the product gets to the customer, how the product is used by the customer, how the customer is acquired, the customer's experience, and then ultimately how the customer is retained. Those are the questions that you're asking. [29:23]

SS Right. So, let me just explore another point you make in your book that, and I'm quoting you here, that "marketing as a discipline has been a funk since the demise of mass marketing." And you also say that today in the face of this uncertainty, you know, marketing has this opportunity to drive business strategy, and it goes back to something we were talking about at the beginning, and you express it as a renewed sense of purpose. So, let's go back to the question I posed at the very beginning. If businesses have to make this shift to this downstream model that you're describing, which is a focus on the relationship, which is a focus on latent needs, or explicit needs customers have, that you can meet, how do you see marketing elevating its role to get the voice required to make that really the central purpose of the business? How does marketing reorganize itself or change how it operates in order to achieve that goal?

ND So, I think marketing organizations need to understand exactly how product-centric they are. Their organization structure is product-based. They have product managers.

Their measurement structure is product-based. They measure costs and profits on the basis of products rather than customers. Their incentive structures are product-based. Their product pipelines are sacrosanct. What they're not paying attention to...For example, when we think of innovation, we think of better products. We think of better features in those products. We rarely think in terms of better customer interactions, or we rarely think of systematically developing ways of interacting better with our customers. We rarely think of milestones that we need to meet in order to have better interactions with our customers. We don't have an innovation manager for the downstream.

SS Or they park customer service in an operational silo judged by operational metrics.

ND Exactly. Right. And so, we don't have metrics. We don't have incentives. We don't have structures that are customer-centric. All have those tend to be product-centric. Let me give you an example. If you're selling an automobile, and the customer, Dr. Johnson, comes in and purchases a car, we know exactly what the margin on that car is. But what we haven't got a handle on is, well, Dr. Johnson's husband also purchased a car. Their two daughters purchased cars, and this is how many times they came in for service for the cars, and how much does that all add up to? So, how much.... how profitable is this household? We don't have a picture on that, and the reason we don't have a picture on that is we are so focused on the product, we forget about the customer.

SS Right. We don't have that ability to pull back and see the broader vision. But that's not true of all businesses. I mean, go back to the Amazon example. Amazon is like an old direct marketing catalog, or it looked at the household as the unit, and how much can we sell into that household. Really, some of those core principles go back to the early direct marketing days, mail-order catalog days. In fact, we're just pulling some of these principles and practices forward and using current digital technologies to execute in a far more efficient way than you could've ever done back in the mail-order days. I actually ran a mail-order operation, or at least I was the marketing manager for that. So, I know the arithmetic around it. It isn't just a concept. Customer lifetime value goes back a long way. So, I wanna talk about something that you wrote about in the most recent issue of Harvard Business Rview. The implication of it is that it can fundamentally challenge the very structure, and discipline, and remit of marketing. You termed the article, "Marketing in the Age of Alexa," and you make this very compelling case that AI-powered voice assistant platforms are gonna transform how companies can equip customers. And that platform, in the case of Alexa and Echo could be the ultimate adjudicator over consumer decisions, particularly low-risk replenishment decisions, you know, "Alexa, what's the best cold remedy I should use?" Does that leave marketing or brand building, I should say, out in the cold? And sort of the equivalency would be like, well, surrendering your brand to Walmart, if you know what I mean. It's just like, "All right, you manage the brand positioning and put it on the shelf where you think it should." Now you've got Alexa as the ultimate intermediary here. Where does brand building fit into that picture of... Does it fit into the picture? [34:37]

ND Yeah. If you remember at the dawn of the internet era, the promise was disintermediation, where intermediaries would lose out because consumers cost of going direct to the manufacturers and to the brand owners would be so low. Couple of clicks here and there, and you can buy stuff directly from Proctor & Gamble, rather than through Walmart. And so, what was predicted was the demise of the intermediaries. And here we are, 25 years later, and what we find is the most powerful players on the internet are, in fact, intermediaries. Intermediaries who control access to consumers in terms of advertising, intermediaries who control access to consumers in terms of distribution. So, we have music stores, and we have Amazon, and we have Google, and Facebook, and they are dominant on the internet. So, the intermediaries have really taken over the internet. And as the internet becomes the primary interface for consumers with their world, devices or apps that provide that interface are going to be very, very dominant. Alexa being one of those. And so, Alexa has the ability to be a player that intermediates all brand purchases that the consumer makes. And that will happen because the consumer sees such great convenience in using Alexa. So, the consumer gets two things out of Alexa. The first is to automate everything that is routine. So, they purchase about 300 products that are consumed on a regular basis, shampoo, dishwashing liquid, pet food, cat litter, that sort of thing. And those products are, right now, very, very difficult to purchase in the sense that every week somebody in the household has to make a list, go to a grocery store, walk through an aisle with a cart, pick those products up, put them in the car, come pay for them at a checkout, load them up in the car, come and unload them from the car. And then...So, these are very, very time consuming and onerous tasks. Imagine if this whole process could be automated, where Alexa learns the frequency, the regularity at which you purchase these products, at which you use the products, and delivers them to your doorstep, just as currently you get electricity and water on a subscription basis. They start to deliver the 300 odd products that you purchase on a regular basis directly to your door, and it'll be delivered by drones, so that the last mile is efficient and inexpensive. So, that's one level of convenience is to automate routine behaviors. And beyond that, you can already see the platform, Alexa-type platforms, offering another service which is to cut through the complexity of the marketplace. Today, we purchase many products that are so complex that we either shoot in the dark, and we purchase a phone plan that we think is right for us but may not be. Of the 75 phone plans on offer, are you really sure you have the right phone plan? Or we rely on brands, we rely on the fact that we trust a particular brand to provide the right insurance for us, the right mutual funds, and so on. So, those are complex decisions that are not easy to make for most consumers. So, we are called upon to make these more and more complex decisions, and machines like Alexa and AI platforms can help consumers simplify the complexity of those decisions.

SS Ruling the algorithm is Amazon.

ND Yes.

SS They rule the relationship.

ND They do. So, the interface, once they...because of those two sources of convenience, automation and reducing complexity, the consumer values the AI. But obviously, behind the AI is an organization such as Amazon or Google that is...

SS Sets the rules.

ND ...selling access to the consumer.

SS Right.

ND And it is...

SS Just like Walmart does. [39:20]

ND Just like Walmart does. And so, that access, the rent associated with that access to the consumer shifts from Walmart to whoever controls these AI interfaces. And there won't be more than two AI interfaces in the market because...first, because they're very expensive to build, and expensive to maintain, and second, because once the consumer gets used to a particular AI platform, they're unlikely to switch because a lot of the convenience depends on how much data the platform has about you, about your past purchases, and so on. If the data are not portable to another platform, you're stuck with that platform.

SS Right. And you're cutting to the heart of a question I do wanna explore here in detail. I mentioned DTC brands earlier, and they have the advantage of Warby Parker, an example, or Casper, or Harry's would be another example. They have access to first-party data, which is what Amazon has. They also have a niche position in the long tail of the market, which they can own. If you're gonna be a generic brand, if you're gonna be a brand of toothpaste sitting on the shelf, it's one thing, right? That's a low-risk complex, often too many brands, proliferation. Pricing, all comes into play here with, "Great, Alexa, just tell me the right toothpaste to buy. I'll be happy." Different matter though, when you're buying other categories of merchandise. Is the room there for brands to find a niche play where they can own an audience? And this goes right back to what you were talking about at the beginning, know that customer so intimately, and so well, they have license to sell against Amazon at that point. Is that a possibility?

ND Yeah. So, I think we are talking about the difference between specialized platforms. For example, Expedia would be a specialized platform for travel or Uber would be a specialized platform for mobility and transportation, versus general platforms such as Google Home or Alexa, which are able to aggregate suppliers across a wide range of product categories in order to have an offering to the customer that allows the customer to reduce their search costs and reduce their evaluation costs across a wide range of product categories. So, I believe that that will eventually be determined by the consumers' quest for convenience, once again. So, if the consumer believes that it is easier to use a single platform to access all of these services, then that single platform becomes primary. If the consumer believes that it is not too costly to switch from Alexa to an Uber platform in order to call a taxi, then there's room for more specialized platforms. What do I believe? I believe the consumer will opt for the convenience of a general platform, and that it'll be very difficult for specialized platforms to compete with the general platform.

SS Well, so, and right now, I mean, apart from Amazon, I mean, Facebook in terms of media for now, but in Amazon's certain terms of distribution is the game in town, like, unless Walmart decides to, you know, well, I guess it is going down that route of figuring out how to own the all night channel just as much as Amazon. It might have a play there too, but it'll be an oligopoly. It won't be many brands of choices, consumers will be locked into those suppliers. [42:56]

ND There's gonna be very few platforms. There's almost a natural tendency for the market to yield an oligopoly in this situation.

SS Right. And then brands are stuck with finding some room on the page to wave their flag, their brand flag, and hope that they can create some amount of awareness which is gonna be very, very difficult, I would imagine. Again, unless you're a niche play and that audience is tightly defined. If you're appealing to a mass audience, it's much harder.

ND So, I think, yes, brands will have to find a way to pay for access to consumers. But brands face yet another challenge too, and that is that these intermediaries will start to develop their own private labels. And when they develop those private labels, they have preferential access to the consumer. And they have the ability to get the consumer to compare prices when they want them to compare prices. So, they can offer a 20% discount on the private label relative to a branded product, and they can highlight that 20% just at the right time because they're interacting with the consumer at the point of purchase. Brands don't have that advantage.

SS I wanna talk about China for a second because when we look from the Western world at Chinese consumer society today, it's quite amazing what's happened there, in terms of mobile payment adoption for one thing, but also the interconnectivity of these e-commerce platforms. Alibaba is a perfect example of that. And connecting the supplier network to those consumers and performing that role and making it easy for consumers to execute mobile payments online, select products, etc. Gamify the whole shopping experience, the immersion shopping experience. Is that the future for us? Is that who we are gonna be in another 5 to 10 years? Do you see us going in a different direction? Do you see Chinese society evolving at all? But it's pretty amazing what you see when you read about what's going on there, or when you visit there for that matter.

ND So, I do see an evolution in terms of payments, in terms of connectedness, in terms of the kinds of platforms that we will have to interact with our environment. I don't think China is necessarily the model, but we are going to evolve towards platforms that are able to offer far more information and access to markets.

SS Like Alibaba.

ND And that's right. We're gonna see more of that here for sure.

SS But those organizations, they're massive now, of course. Do you see anybody on the horizon here on this side of the pond that can be a pretender to the throne? Because I don't see it right now. You've got, you know, the big five out there. But that's about it. Like, who else is out there? Who else can make that claim, or take a run at it right now?

ND Yeah. So, I think the contender that I can see is Amazon. And Amazon has an advantage over players such as Facebook and Google because Amazon owns the purchase. Facebook and Google have models in which the consumer is sold to the advertiser, which is a very different model than selling products to the consumer. So, Amazon is the only player that is selling products to the consumer. Now, Amazon is also getting into the advertising business. So, as a platform that matches sellers to consumers, and a platform where consumers can purchase products, Amazon has a very tremendously powerful value proposition. [46:50]

SS It has the sniff of a monopoly though. At some point, regulatory authorities are gonna step in and say, "Well, you can't have just one distribution channel of consumer products in society, we've got to open this up somehow." Don't you think? Like that sort of grip on the marketplace doesn't exactly spell, you know, free enterprise.

ND So, I think regulators can come at this from a couple of angles. The first is to make the AI data … to mandate that it be portable...

SS That's interesting.

ND ...across different platforms. So, if I've been an Alexa user, I should be able to take all of my past Alexa data and take it to Google and say I want to now be a Google user.

SS Well, even more interesting if you stretch that idea, is that you, in fact, own the data now, like, you can take it anywhere you want.

ND Exactly. So data portability will be key to ensuring some level of competition. And the second is the privacy angle. So, to what extent is the data used to target consumers without their consent? That becomes an important question. And I think the European Union's GDPR starts to get at that question. And I think we'll see in the next couple of years how GDPR evolves, and how it is enforced.

SS You also wrote an article in HBR touching on big data, and you touched on this issue that marketers today think of big data in terms of targeting, which is a legacy model, and we've talked about that earlier, but that they need to shift toward leveraging that for customer insight.

ND And customer value. How do you create value for customers, given what you can learn about them, and glean about them from the big data? Right now, we're primarily using big data to target consumers as opposed to trying to find ways in which the data itself may be useful to consumers in their evaluation, formation of consideration set, and usage of the product.

SS Well, and that speaks to this, the remit of marketing being, find and acquire customers because I wanna grow market share, versus help customers succeed in their daily lives. And the only way a brand becomes a part of their daily lives is having that role. Well, I mean, I've seen the figures around, you know, most people could care less if brands disappear tomorrow, right? There're very few brands that are so key and essential to your lives, you would miss them if they disappeared, and it's in part because they don't play a strong enough role in people's lives. So, it's an interesting scenario because I often talk about this idea that people eventually will have these set of trusted brands in their inner circle that they will trust their data with. They will trust a lot of things with, and we talked about that a little bit. And on the outer periphery are the brands at disenfranchised, that are having to go through the intermediaries in order to gain access to the customer. And those ones in the inner perimeter are going to have to do two things. And this touches on another issue I wanted to explore with you, which is this idea of brand purpose. So, the idea of people connect to other people based on shared values, well, similarly people connect to brands based on shared values. And, you know, the Nike-Kaepernick issue, the recent Gillette stand on the role of men have to change, notwithstanding all the controversy associated with that, people now know there's a set of values associated with Gillette. There's a set of values associated with Nike, and I relate to those values, or I do not relate to those values, and that builds trust in and of itself. So, don't you think the play for brand building going forward, the way to build brand equity is, on this whole concept of establishing an emotional connection based on shared values?

ND So, I think brands have always tried to find ways to break through the clutter and connect with consumers at some deeper level. We've had the Dove Campaign around for almost 20 years now.

SS Very good. Yeah.

ND And so, there are ways in which brands try to connect with consumers in order to circumvent the intermediaries. [51:06]

SS Well, Unilever in itself has made this, really the core strategy for their entire brand portfolio. Every brand has to have a purpose of some kind, right?

ND Yes. Yeah. And, you do end up with a deeper brand connection with the consumer, and that does allow consumers to pull the brand through the channels of distribution, the channels of communication. And in today's world, where it's very difficult to get to the end consumer, it's very difficult to reach the end consumer without the power of these intermediaries, Facebook, Google, Amazon, and the large physical retailers such as Walmart, it's all the more necessary to establish that connection and to maintain that connection over time. It is tricky because it requires brands to be very, very finely tuned to the tone of where society is going, and how it's thinking. And if it were to be tone-deaf, it can very easily backfire.

SS Well, it's a bit of terra incognita, isn't it? I mean, there's gotta be great successes and great failures here, but ultimately, you have to think everything that you've been describing this morning, has been around the transactional relationship that will form based on convenience. Therefore, the only play here for brands is really a non-transactional relationship based on an understanding of those customers' needs, which is the downstream strategy you talk about in your book, "Tilt."

ND There are also technological solutions that are appearing on the horizon today, which allow brands to establish direct relationships with the end consumer where the product itself becomes the product, or the product packaging becomes a message carrier. So, an example is where the product or the product package has a QR code which allows the consumer to tap their phone on the product package to obtain videos, for example, how to use a product, or to obtain information about the ingredients of a product, recipes related to the product, associated products that they might be able to purchase to make this product better, and ways in which they can sign on for loyalty programs, and so on. Those types of phone-based platforms are owned by the brands themselves. And they circumvent the channel of communication, which is through the intermediaries.

SS Well, and we're entering into this, I think I've heard the expression, Age of Assistance, and the role of marketing as a service, idea of marketing as a service, whether it's content marketing and thought leadership, whether it's notifications and messaging apps or whatever. It's that assistance aspect that marketing needs to focus on. Going forward, the pace of change is going to accelerate. We're having a convergence of technologies are gonna have earthshaking effects. We're starting to see the tremors today with AI for sure. That will accelerate - the arrival of 5G, certainly, will. Advances in augmented reality, virtual... All of these changes that are gonna occur in the next five years will be convulsive. You're an esteemed professor of marketing here at one of the best business schools in the world. Five years from now, you're teaching your course. What are you going to be teaching in five years? Because those textbooks that we've all read over time are in the dustbin. The whole business has changed.

ND But remember, the consumer remains at the center of the activities that marketing performance. And so, you always come back to that. You begin with the consumer. What does the consumer see as value? How do you generate that value? How does that value become a source of competitive advantage, and how do you maintain that?

SS How do you connect customer insight to customer value creation, is what you're saying becomes the heart of marketing and really has been or should have been anyway, the heart of marketing all along, hasn't it?

ND Absolutely.

SS Fantastic conversation. I would love to sit here and speak with you for another hour. Thank you very much for the time. It was an absolute delight, and I encourage the listenership to pick up your book, "Tilt" because it's an excellent well-written book. Thank you very much.

ND Thank you, Stephen. Pleasure.

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