



Adaptive Marketing: Building an intuitive enterprise



Adaptive Marketing

A new kind of business model

Customers buy based on their personal experience. During an actual purchase, they start to form their first impression of the product, the company, and the brand. This is where customer loyalty begins and, if all goes well, where it gains strength. That's the value proposition. But how do you make it happen? Quite simply, by sensing what your customers tell you in every channel; interpreting what that means; deciding how to respond—then acting upon that decision.

Years ago, small “mom and pop” enterprises—merchants like the local butcher or your grandfather's tailor—forged lasting ties with their customers. They had the ability to quickly and continually gather information about their patrons, due in large part to the personal relationships they cemented with them over the years. They could sense their customers' needs; understood their shopping patterns and buying history; and were keenly attuned to their individual preferences regarding products, styles and services. Personal service was a given—and everybody knew your name.



e-business

In today's extended enterprises, achieving that same level of service—what brand marketers refer to as “emotional lock-in”—is especially challenging when an organization is dealing with tens of thousands—sometimes millions—of customers. The pressure is heightened by consumers' newly empowered ability to select how and when they want to patronize an organization. Though multiple channels are at their disposal—the Web, kiosks, standard mailings, the call center and ATMs, as well as traditional “brick and mortar” establishments—today's customers nonetheless count on a single, unified brand experience.

To fulfill their expectations in a growing, increasingly Web-based marketplace calls for a commitment that reaches well beyond your Web site and deep into the enterprise. It means tying marketing to operations... finance to customer service... and market research to sales. It also calls for the adoption of two new attitudes within the organization—one absolutely committed to listening to the customer, the other dedicated to continuous learning. These concepts are embodied in a powerful new business model known as *Adaptive Marketing*.

Adaptive Marketing is a derivative of Adaptive Enterprise, a scalable enterprise design tool and governance framework. Adaptive Enterprise¹ is the subject of a recently published book of the same name, written by Stephan H. Haeckel, Director of Strategic Studies at the IBM Advanced Business Institute. This book includes much of the business thinking upon which Adaptive Marketing is based.

To fulfill customers' expectations in a growing, increasingly Web-based marketplace calls for a commitment that reaches well beyond your Web site and deep into the enterprise.

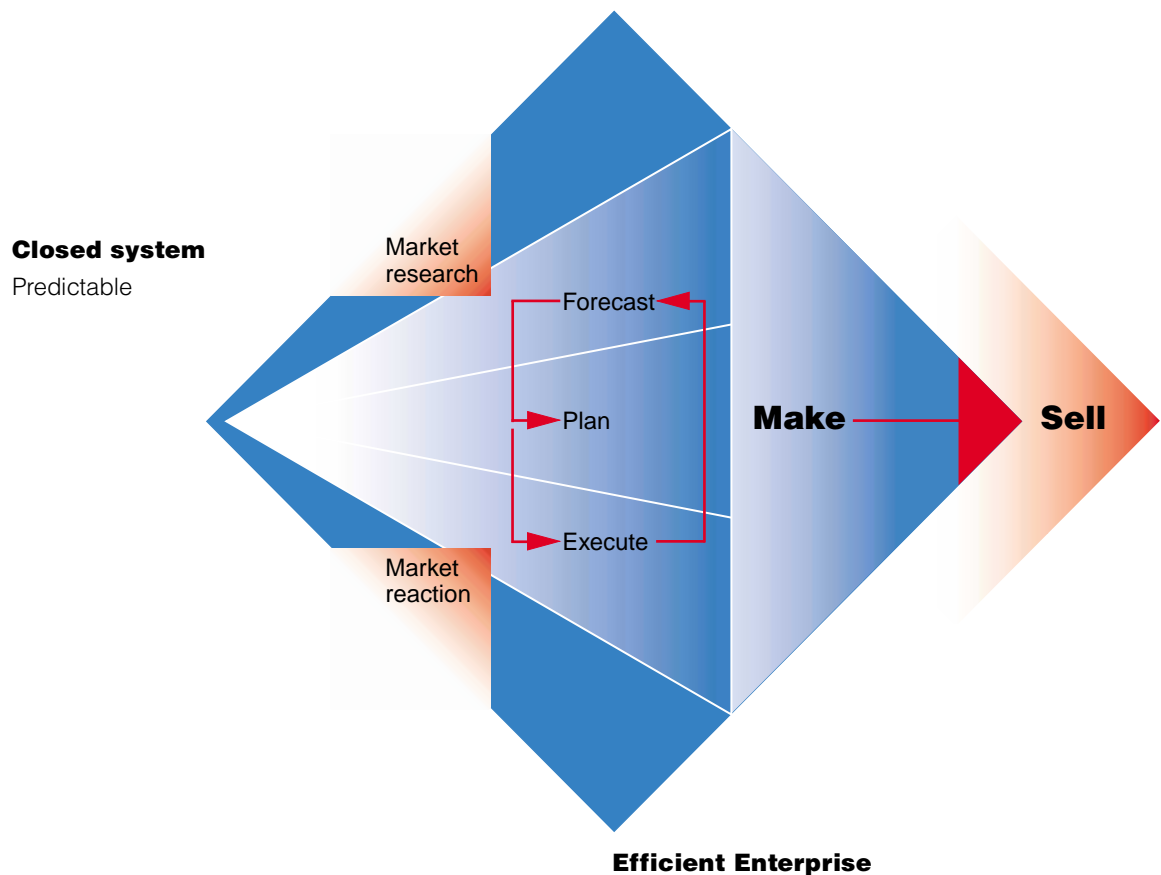


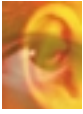
It's about more than the Web

Picture this: A customer visits your Web site and indicates some passing interest in one of your product lines. They return to the site two days later to look at the product again, at which point you present them with a special offer—a 10% discount if they buy the item that same day. They place an order on your site. This information is then communicated to your order-fulfillment system, which schedules the delivery. A member of your sales support team calls the customer, confirms the order, updates the customer on the expected delivery date and provides them with a tracking number, which they can access via your telephone order-inquiry service or your Web site.

The product is shipped. Shortly after delivery, your marketing department sends the customer a follow-up mailing offering products that complement the original purchase.

You've given the customer the autonomy to choose; you understand what they're asking for; you deliver it quickly and conveniently; and you leverage the insights you've gained to your and your customer's benefit. Now let's examine how Adaptive Marketing can help you make this scenario a reality.





Sensing and Responding

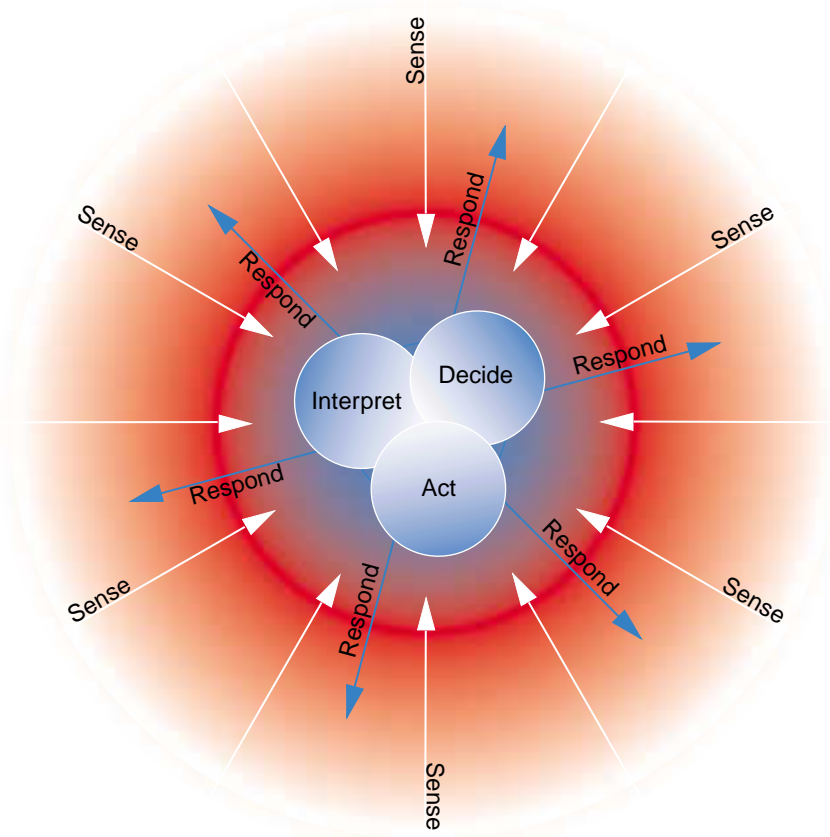
If you develop go-to-market plans predicated on your current portfolio of products and/or services—building your marketing strategies around what’s “on the truck”—you’re aiming at an imprecise target. Customers may or may not respond.

Organizations that practice Adaptive Marketing are characterized by their ability to rapidly and continuously sense, interpret, decide, and act on information. They sense what is truly valuable to their customers, then respond in turn with a value proposition developed around customers’ individual requirements and governed by business rules and human input. Although this concept represents a dramatic departure from conventional

marketing strategies, it is emerging as a new imperative in a world where customers will continue to have more choices and more control.

Because it is impossible to predict what customers will do, adaptive marketers don’t even try. Rather than take the “make it and sell it” approach—which can leave the customer with the impression that you don’t really know or care who they are or what they want—they opt to employ the sense and respond strategy, which allows the customer to tell them who they are, what they value, what they want and how they want it.

Open system
Unpredictable



Adaptive Enterprise

It's important to remember that these enterprises are not static—and not complacent. They are driven by a continuous chain of events fueled by the capability to anticipate—not predict—customer needs.

What is the difference between anticipating and predicting? Consider this example. A lawyer—by interviewing his client, researching relevant legal precedents and calling opposing witnesses—is able to anticipate the client's need for a plea bargain. The skilled attorney can interpret the data, and therefore knows what is needed earlier than the client does. The attorney is not guessing; he is not predicting; he knows earlier, because he knows how to interpret the law as it relates to the specific case.

Adaptive Marketing requires placing sensors—24 x 7 x 365 “listening devices” like click-trace reports, competitive analysis tools, sales reports and focus groups, for example—at points where customers voice their interests and opinions. These “touchstones” are consigned and carefully positioned (an art in itself) to collect and interpret data, then extract relevant information from “white noise.” (Implicit and explicit behavior, pattern-matching and collaborative filtering are just a few of the analysis techniques available today to help effect this process).

Next, the organization responds with the proper information, offer or service. As more data is collected and trends are identified, the design of the business is adjusted—ready to react faster to customers' evolving requirements. Finally, decisions are made regarding how and when to act upon that information. Then, as they say, *just do it*.

Whether customers are aware of it or not, almost everything they do on a Web site or through another channel can be used to further adapt to their particular interests. Based on customers' actions and reactions, Web pages can be rearranged and content edited; recommendation engines can compare a customer's book order, for example, with hundreds of thousands of others stored in a database to find additional offerings that a customer is likely to buy. A case in point is a popular online bookseller, which increased its conversion rates significantly through this type of personalization.

Today's customers can choose exactly how they want to communicate with you—and they expect your business to respond as a single, well-organized entity. The challenge, then, becomes to coordinate information across “silos” in your organization, so that each customer experience is optimized—for you *and* your customer.

To be truly adaptive, your company should ensure that customer-relevant information is woven into every customer contact point—regardless of the channel—to create a single, easy-to-understand and consistent experience that invites the customer to connect with your brand at every turn.

Because it is impossible to predict what customers will do, adaptive marketers don't even try.

Although the Internet may be the catalyst for gathering customer intelligence, it's not a panacea. Information will continue to surface in other places. At the same time, the Web can serve as your gateway to a host of other opportunities for sensing and responding to customers' various needs, including gauging the business climate, eyeing market trends and checking forecasts.

If you knew everything you needed to know about your customers, could you act on that information?

Adaptive Marketing requires thinking past the strength of your outbound communications and the appeal of your Web site, and discarding the notion that customers are willing to settle for "fast, cheap and convenient." In an environment free of competitors, it would be easy to say, "They can have it in any color, as long as it's black." But on today's playing field, that attitude constitutes a blueprint for failure.



Redesigning the customer experience

Adaptive marketers practice “customer experience design.” This holistic approach depends on the adoption of a company-wide, channel-neutral, interconnected model that reflects a continuous chain of events that touches every employee, every partner, every process and every customer in a way that affords the most value to each, over both the short and long terms. It means being prepared on a continual basis to react quickly and meaningfully to whatever comes your way—being attuned to your customers at all times, and at every level, from your networks to your call centers to your boardroom—then responding with highly customized offerings and services. It means being open to making changes in your business design, and remembering that most jumps in valuation and profit come not from incremental sales gains, but from changes to the traditional business model.

Think about it. When was the last time you saw a stock rise only because sales went up?

The Adaptive Marketing model can also be used to help you better understand your customers’ perception of value regarding current and future products and services. Using this concept, you can do some interesting research. For example, you can develop prototype products and place them in your online catalogue to measure customers’ reactions. You can then build around those results—working from the outside in to deliver what customers have indicated they prefer. Black and grays vs. pastels; pound cakes instead of fruitcakes; an all-terrain vehicle that’s easy on mileage and under \$25,000. The goal is to continually gather and utilize information that is truly meaningful.

One of the highest and best uses of marketing information is to create additional value by improving the business design. A significant advantage of Adaptive Marketing is that as the organization learns, that knowledge can be codified into company systems, not just in employees’ minds. Its value only increases over time, as more data is collected and analyzed and shareable knowledge is created. The learning process in Adaptive Marketing cannot be avoided; in fact, learning is at its heart.



Adaptive Marketing: Where to begin

Becoming adaptive begins with an executive commitment to the principles of Adaptive Marketing, based on the following beliefs:

- The most critical point of view—the one that really matters—is the customer's; the customer holds the power.
- The only viable strategy in a constantly changing world centers around being adaptive.
- Communications with customers are driven by individual customer profiles.
- Contact points, regardless of the channel, should be designed with the total customer experience in mind (optimization of that experience is shared between customer and company).
- Service operations should become adaptive so the enterprise can effectively respond to customer requests.

Adaptiveness thus becomes your yardstick—the standard for creating a unified brand experience for your customers. At every juncture, you'll learn, and gain more flexibility to move forward.

There are techniques for Adaptive Marketing that can help you adjust your company's existing business processes to align with your customers' needs. This may require altering (and improving) your relationships with employees, suppliers, distributors and partners, or forging new ones to deliver the necessary information and services. Outsourcing also offers interesting opportunities.

Adaptive marketers practice “customer experience design,” a holistic approach that depends on the adoption of a company-wide, channel-neutral, interconnected model. This results in a continuous chain of events that touches every employee, every partner, every process and every customer in a way that affords the most value to each, over both the short and long terms.

Some things to consider on the road to Adaptive Marketing

As you work toward adopting an Adaptive Marketing strategy, you should ask yourself these questions:

Does my company have:

- The capability to respond quickly?
- A reliable system of sensors that keeps us in touch with our customers' expectations?
- A well-designed, adaptable Web site and the business to stand behind it?
- A responsive, scalable and security-rich infrastructure to support e-commerce?
- A framework for ensuring cross-channel personalization?
- A targeted action plan with realtime recommendations?
- Business intelligence tools?
- Campaign management tools?
- Data analysis tools?
- Support to manage the process of change inside and outside the company?
- Ongoing service and support?

These are critical elements that must be considered in your evolution to an adaptive enterprise. The lasting return on this investment is clear and simple to achieve: a greater ability to sense and respond to the needs of your customer. . . a more satisfied, more loyal customer base. . . and a business designed to thrive.

A good place to begin the process of becoming adaptive is in your marketing organization, where change occurs most often, and where being adaptive is most essential.

At IBM, we're ready to help you get there. If you would like to find out more about Adaptive Marketing, contact us at envision@us.ibm.com. You can learn more about the Centers for IBM e-business Innovation by visiting our Web site at www.ibm.com/services/Innovation.

About the author

Mike Wittenstein is an executive consultant within the IBM Innovation Accelerator unit, where he plays the role of e-visionary, helping commercialize innovative ideas for e-business. He can be contacted via e-mail at *catalyst@us.ibm.com*.

Credits

Stephan H. Haeckel is Director of Strategic Studies at the IBM Advanced Business Institute, Chairman of the Marketing Science Institute, and author of "Adaptive Enterprise: Creating and Leading Sense-and-Respond Organizations," Harvard Business School Press, 1999.

David Ing is a Marketing Scientist with the IBM Advanced Business Institute, and a Sense and Respond Method Mentor with the IBM Consulting Group.



References

¹Haeckel, Stephan H. "Adaptive Enterprise: Creating and Leading Sense-and-Respond Organizations." Harvard Business School Press, 1999. This book can be ordered from Amazon.com (www.amazon.com).

© Copyright IBM Corporation 2000

IBM Global Services
Route 100
Somers, NY 10589
U.S.A.

Produced in the United States of America
03-00

All Rights Reserved

IBM and the e-business logo are trademarks or registered trademarks of International Business Machines Corporation in the United States, other countries, or both.

Other company, product and service names may be trademarks or service marks of others.

References in this publication to IBM products and services do not imply that IBM intends to make them available in all countries in which IBM operates.