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# New insights for new growth: What it takes to understand your customers today

Marketing & Sales September 2016

Companies that know how and when to use the wide array of research tools available today have a big competitive advantage in generating insights that lead to new organic growth.

**What do Unilever, Philips, Amazon, and Netflix** have in common? At first sight, nothing much. They compete in very different industries, and while Unilever and Philips are firmly rooted in the 19th century, Amazon and Netflix are unthinkable without the Internet.

What they have in common, though, is that they drive growth by meeting consumer needs better than their competitors do. Core to this consumer focus is a strong belief in insights, and in the active use of a diverse mix of insight tools—new and old, qualitative and quantitative, digital and analog—to get better answers.

Unilever, for example, has successfully engaged in consumer cocreation to launch TRESemmé, a fast-growing dry-shampoo brand that is now one of the best-selling mass hair-care products in the US. Philips has achieved major market-share gains in highly contested home-appliance categories through city-level growth analysis. Thanks to its data-driven recommendation engine, Amazon attributes more than one third of its revenue to cross-selling,<sup>1</sup> and Netflix saw its subscribers triple between 2011 and 2015, largely because of its ability to develop hit shows such as *House of Cards*, based on advanced analysis of subscribers' past viewing behavior.<sup>2</sup>

Developing a better understanding of customers is increasingly a strategic necessity, because fast-moving markets, new technologies, and new business models are changing what customers want and how they shop. Yet many companies still spend the bulk of their research budget on traditional techniques (e.g., focus groups, interviews, and surveys), or treat insights as an afterthought, which leaves them with a limited and often incorrect view of what customers want. That is a recipe for obsolescence in today's economy.

While there is a vast array of marketing analytics and insights capabilities, this article focuses on those tools, techniques, and approaches that specifically lead to new commercial

<sup>1</sup> Charles Gaudet, "What Amazon can teach you about cross-selling," [predictableprofits.com](http://predictableprofits.com).

<sup>2</sup> "Number of Netflix streaming subscribers worldwide from 3rd quarter 2011 to 2nd quarter 2016 (in millions)," [statista.com](http://statista.com).

## Making research more agile

Market research has traditionally been a linear and sometimes slow process. In the past, it wasn't uncommon for attitudinal research to take three months and innovation investigation as long as year. This is changing rapidly in response to demands to keep up with the accelerating pace of business and thanks to digitally enabled techniques, which are bringing greater flexibility, effectiveness, and speed.

Consumers have ongoing digital interactions with brands and about brands, which can be observed continuously. Online focus groups can be assembled in 10 minutes.

Mobile ethnographies can be completed in a weekend. Rapid quantitative surveys can be fielded and analyzed in days or weeks, rather than months. These developments are allowing marketers to create more targeted and relevant insights programs, tailoring the technique and questions to the right consumers at the right time.

Such speed and targeting has made insights generation both faster and cheaper, allowing marketers to get to "good enough" insights before moving to real-time testing and iterating in their marketing pilots and campaigns.

growth, i.e., new products, services, or markets. (An insight is defined as the discovery of a fundamental consumer need that companies can use to create value for the customer and the business.)

### A new approach to insights

Getting to a level of understanding about what customers really want requires the ability to understand what motivates consumers, as well as how they shop and make decisions. Based on our work with leading companies and innovative insights vendors, as well as proprietary research, we have identified five research approaches that are best suited for generating the kinds of insights that lead to new growth opportunities.

#### 1. Observe consumers 'in the field'

Observing consumers as they shop or use a product is often deeply revealing about their behaviors and motivations. This kind of research is closely tied to behavioral economics,

## Questions to answer

As business leaders think about developing an insight engine for their organization, we recommend reflecting on five questions:

- What modern insight technologies and sources have you invested in and developed over the past 24 months?
- What are the primary blockers that slow down the delivery of a relevant and actionable insight to the right decision maker?
- What percentage of your insights are counterintuitive and lead to different decisions from those made in the past?
- Which business leaders, both inside and outside of marketing, are actively using customer insights to make better decisions?
- Which insights developed in the last 12 months have been used to accelerate growth and make efficiency gains?

a school of thought that seeks to understand the way consumers actually make decisions. It's also a pillar of design thinking, which puts the customer at the center of a system of interactions with the brand.

John Kearon, the founder of UK-based agency BrainJuicer, a two-time winner of Esomar's Best Methodology award and a leading provider of observational and ethnographic research, believes that "anything based on observation of what people really do is massively more accurate than what people say they do—or the reasons they give for saying it."<sup>3</sup>

One international food company, for example, was seeking to introduce European markets to a new product: a dip that could also be spread on bread. The CEO believed that countries like France or Italy would be ideal pilot markets, given the countries' obsession with good food. To test this hypothesis, a team of ethnographic researchers conducted "dine-alongs," where they joined subjects in five countries both in restaurants and in private homes.

Through observation and casual conversation, the team found that consumers in two other countries were actually more open than those in France and Italy to international cuisines and new flavors, and would be more receptive to the company's product. Based on this research,

<sup>3</sup> *The Stevie Awards Blog*, "Top 3 market research tips: Q&A with John Kearon of BrainJuicer Group," blog entry by Michael Gallagher, November 3, 2011, [blog.stevieawards.com](http://blog.stevieawards.com).

the company changed their market-entry priorities and increased their launch targets to more than a 10 percent share in the category, which unlocked additional sales of more than \$10 million annually.

## 2. Digitize the daily diary

While consumer diaries—literally a written record someone creates to track their daily decisions and purchases—have been around for some time, digital advances and mobile devices have made this kind of research much more versatile, accurate, and accessible. Typical applications include video recording, photographs, and blog posting of food or beverage consumption, media usage, patient journeys, or compliance with medical prescriptions and therapies. What’s more, the results are available within days, if not in real time, rather than after weeks or months.

In a pioneering case, a maker of pharmaceuticals and medical devices used digital diaries to better understand how arthritis patients self-administered injections several times a day. Participating patients used mobile devices to film themselves performing these tasks. Additionally, researchers observed patients at home. The research revealed that some patients skip injections because of the discomfort and pain they cause or the anxiety patients feel. Not all patients, however, admit such qualms to their physicians, who then will frequently prescribe higher dosages of pain medication. A member of the observation team said, “Until now, we have never seen how patients live in their day-to-day lives.”

To address this issue and increase patients’ compliance with the prescription regimen, the company is working on a needle-free drug delivery system as well as other ideas for new products and services that would make the life of arthritis patients a lot easier. The total opportunity has been valued at almost \$100 million in incremental revenue.

## 3. Use advanced analytics to get much more granular insights

Today, the mass of data about consumer behavior allows marketers to get past broad and often deceptive averages to dive into much more granular levels of insight that can unlock new opportunities. Those who invest in big data and advanced analytics often achieve up to 10 percent sales growth, up to 5 percent higher return on sales, and a margin uplift of 1 to 2 percent.<sup>4</sup>

A next-generation car-rental company with ambitious growth plans, for example, used advanced data-mining techniques to target new customers more effectively. It started by analyzing its database of driver profiles and trips to identify distinct groups of customer archetypes. The team then pulled in external data from a variety of sources to build a scoring model to identify drivers in a given city or neighborhood who fit one of the ten archetypes the business had developed. They then tailored offers and communications to

<sup>4</sup> McKinsey Periscope, [periscope-solutions.com](http://periscope-solutions.com).

each of those segments. Within one year, the company grew its customer base by more than 10 percent and increased its revenues by almost 20 percent.

Philips US applied advanced analytics to simulate the market potential for various combinations of price tiers, channels, and product portfolios—not at a country or even regional level, but city by city in dynamic markets.

With that information in hand, the marketing team created offers that targeted the most promising segments in each city. The market share in relevant product categories increased from 15 percent to 19 percent, and the EBIT for the company's consumer lifestyle division jumped from 8 percent to 14 percent. Says Pieter Nota, CEO for Philips Consumer Lifestyle: "Based on the global growth analysis, we devised a plan to double revenues over the course of less than a decade without compromising profit margins, partly driven by product innovation in two highly dynamic categories."

#### 4. Better listening and learning with social media

Social media allows companies to listen in on unfiltered conversations consumers are having about their preferences, experiences, and habits. Many services exist, such as Hyve, Winkle, BrandWatch, Synthesio, or Google Analytics, to unlock insights from analysis of online discussions, consumer reviews, topical blogs, and keyword-driven trend analysis. Active listening enables companies to detect relevant buzz early on (be it positive, neutral, or negative), react swiftly, and unearth clues that can lead to innovations.

Beiersdorf, the personal-care company and owner of the Nivea brand, tapped into an ongoing social-media conversation to develop a completely new product line. Using Hyve's Netnography Insights software, the company found that consumers were complaining in multiple online forums such as beautyjunkies.de that deodorant leaves stains on textiles.<sup>5</sup> Further analysis revealed that the issue was widely discussed and that users shared advice on how to remove various types of stains.

In response, the company developed a new type of deodorant that prevented yellow stains on white clothes. To test the concept, Beiersdorf turned to almost 2,000 dedicated followers of the Nivea brand. It turned out that consumers were not only concerned about yellow stains on white clothes but also about white stains on dark-colored clothes. Beiersdorf refined the concept and marketed it as "Nivea invisible for black & white," stressing that "white stays white and black stays black."<sup>6</sup>

Ansgar Hölscher, in charge of consumer insights for the Nivea brand, says, "Thanks to social listening and online consumer cocreation, Nivea Black & White became the most successful product launch for Beiersdorf in ten years."

<sup>5</sup> Volker Bilgram, "Mit Co-Creation zur erfolgreichen Deo-Innovation: Nivea Invisible for Black & White Case Study," LinkedIn ShareSlide, July 19, 2012, de.slideshare.net.

<sup>6</sup> Sven Hollensen and Mark Oliver Opresnik, *Marketing – A Relationship Perspective*, 2nd edition, Vahlen Verlag, 2015: Case 4 Beiersdorf AG (p. 381: Black & White Open Innovation).

## Putting innovative insights to good use

### Interview with the head of insights at an international consumer-goods company

**McKinsey:** *What is the role of nontraditional insights techniques at your company?*

We differentiate between exploration and assessment. The selection of research techniques depends on the research need. For example, we frequently need to assess whether a product or a concept is relevant to consumers. We need reliable benchmarks for this purpose, which is why we run standardized quantitative tests. When it comes to generating new ideas, we use explorative techniques. These include ethnography and observation. Data mining can also be explorative. Many of these techniques are well-known, but the trick is to apply them individually, in context, and creatively.

**McKinsey:** *How do you ensure your arsenal of insights techniques and approaches is always up to date?*

We work with selected innovative agencies and closely monitor what

is going on at the methodological front. If everyone digs in the same hole, everyone will come up with the same insights. This is why we often approach an ideation challenge from several angles. Within our community of experts on the research team, we assign champions to every key method to make sure we are always up to date in these areas.

**McKinsey:** *How do you determine whether a new insights approach is relevant for your business?*

We try to test and learn as much as we can. We run tests of competing methodologies in close collaboration with our agencies. If the research brings something new, something that goes beyond the obvious, we use it more often. Above all, we try to keep an open mind. In the past, I have seen some great product ideas shot down by researchers who relied too much on established techniques. I have made it my mission to not let that happen again.

## 5. Cocreate with consumers on digital platforms

Manufacturers of consumer products are inviting their customers to generate new ideas to advance their product development and gather feedback on new products, even before launch. This goes beyond just listening to customer preferences and bringing them into the creative and development process. When done well, cocreation can reduce market-research costs, increase customer loyalty, and develop the products and services that customers want. Leading vendors in this field include CrowdWorx, Innocentive, Synthetron, noo F/X, and Lunar, the award-winning design firm recently acquired by McKinsey.<sup>7</sup>

Procter & Gamble became a high-profile proponent of this approach when it launched its Connect+Develop program, which aimed to leverage external idea generation for future product development. One of the innovations that originated from this program was the Swiffer range of cleaning products that collectively contribute about a billion dollars in annual sales.<sup>8</sup>

More recently, Unilever made headlines when it created a new hair-care range, TRESemmé Fresh Start Dry Shampoo, with the help of consumers. It learned that half of US women do not wash their hair every day, even though many of them feel insecure on the days when they don't.

To learn more, Unilever engaged with women in My Beauty Café, an online community dedicated to hair care and beauty regimens. Community members contributed to every step of product development, from initial ideation and concept refinement to sample testing, packaging, and advertising. Launched in 2010, the new range generated first-year sales of almost \$8 million. Subsequently, Unilever's share of the US mass hair-care market jumped from 9 to almost 16 percent. Today, Fresh Start Dry Shampoo is one of the ten best-selling products in the overall styling category in the US mass market.<sup>9</sup>



Generating insights is a vital, iterative process. Testing and learning, adding innovative methodologies to your tool kit, and discarding techniques that no longer add value have become core insights disciplines. While reengineering how companies generate insights is crucial to finding new growth, how effective it is relies on an approach that is as dynamic as the market itself. 

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<sup>7</sup> *New at McKinsey Blog*, "Landing Lunar," June 2015, McKinsey.com.

<sup>8</sup> Scott Anthony and Bruce Brown, "How P&G tripled its innovation success rate," *Harvard Business Review*, June 2015, hbr.org.

<sup>9</sup> For more see "Co-creation leads to a product launch that invigorates the hair care category," [groundswelldiscussion.com](http://groundswelldiscussion.com); and Peter Evans, "Procter & Gamble and Unilever escalate big hair war," *The Wall Street Journal*, February 2014, wsj.com.