Christian Terwiesch (left) and Nicolaj Siggelkow, Wharton School professors and co-directors of the Mack Institute for Innovation Management

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Getting the Connection

The Future of Business Is Where the Customer Is

BY CHRISTIANE TRUELOVE

AMA Quarterly sat down with Nicolaj Siggelkow and Christian Terwiesch, the authors of *Connected Strategy: Building Continuous Customer Relationships for Competitive Advantage* (Harvard Business Review Press, 2019). Siggelkow and Terwiesch, Wharton School professors and co-directors of the Mack Institute for Innovation Management, talked about the reasons all business leaders, even those in a B2B setting, must consider a connected strategy to produce and sustain a superior customer experience. Siggelkow is a professor of management at Wharton and a fellow of the Strategic Management Society. He developed the online course "Business Strategy from Wharton: Competitive Advantage" and co-hosts the SiriusXM radio show *Mastering Innovation*. Terwiesch is a professor of operations and information management at Wharton. He has authored several books and published in many leading academic journals. He hosts the SiriusXM radio show *Work of Tomorrow*.

Why did you write the book?

Nicolaj Siggelkow: Both Chris and I are co-directors here of the Mack Institute, and both from the members and the participants in executive education programs that we are running, [it's] sort of clear that a number of firms are really restructuring the ways they are interacting with their customers. [They're changing] from having a few episodic interactions with customers, where you sort of wait for the customer to come to you—the best example is the medical field, where you interact with it only if something bad happens to you, when you see a doctor or go to a hospital— to a much more continuous relationship with customers having many more smaller interactions, where we can really get that information about customer needs almost in a continuous way. Now this starts allowing us to partially anticipate the needs of customers and understand their deeper needs.

To us, the interesting thing was that we're seeing this in almost any industry. Medical, retail, entertainment, financial services, transportation, you name it. The nice thing about being at this [Mack] institute, we had the insight into these various industries. And there seems to be something general going on that inspired us to think about this topic of connected strategies. Both of us are involved in executive education. We wanted to make it [the book] as applicable as possible. So this book has become one with workshop chapters in it. We have worksheets that people can fill out, and it will give them some sort of tools that they can use to create those connected strategies for their own organizations.

So it was a research interest and a teaching interest, how to help firms deal with those kinds of issues.

Christian Terwiesch: Speaking of teaching, one industry that we have both done a fair bit of work in is education. If you think about education, it used to be intense service episodes. You would come to Wharton, and for two years you would be in the middle of the Wharton School, and all the action and everything would be around you. And then you graduate and then maybe you'd be contacted for fundraising, but you're gone. But the name of the game in all of the top business schools at the moment is lifelong learning. We want you to think about your relationship with Wharton not as a transactional one where you come in, you graduate, you take a degree, you get out of the door, but through your life and your career, your needs are changing. And we want to be there in learning, at your desk, in your boardroom, as you make that exciting career. That requires a kind of business model that is not thinking of an intense service end result, followed by nothing, but a continuous relationship over time.

We believe that allows us to do a better job of serving you. But in many settings, including Wharton, quite frankly, there is also a monetary piece to that. If we can keep that relationship alive, there is value that is created and there is no reason we couldn't be sharing some of that value.

What have been the challenges you've seen with executives who are trying to take the lead and set up these new systems? Are they struggling with technology?

NS: The intriguing thing is, and we do have a selective sample—most of the people we have talked to see [connected business strategies] happening and feel like they have to do something, because they look at Amazon and they look at other firms—it's not so much a question of trying to convince them that they have to do something, but the challenges are in how to implement these systems.

Connected strategies are most fundamentally changing the business model. It's not technology. Technology is an enabler, but quite often all of these technologies [needed] are already out there. It's more about "How can I piece them together?"— not "I have to develop a new technology!"—to create these new strategies. But they need to think about how to change their business model. In our case, at Wharton, it's not thinking about the customer for two years or four years, but over a lifetime. Also, how do I restructure my business model or revenue model from having just one operation? How do I keep track of you?

And that brings me to the second part, the whole data/ privacy/trust part. That's a huge element. How do we manage that? There is the operational data security piece, but also, do we use your data in a responsible way that you as a customer really see the benefit of, after you have sent me all this data.

I think we're at the first wave of these [connected business] strategies. At first, businesses were like, "Oh cool, I can get all of this data!" And now they're sitting on all of this data and have no idea what to do with it. So they resell it, and customers now get contacted by all these weird advertisements.

So there's the challenge. It's not just about data privacy and security, it's about how do I use this data in a way that provides not only value for me but for the customer.

CT: And among larger corporations, there's a sort of battle about who within the company owns the customer. There's an online channel and a brick-and-mortar retail channel. If the customer goes online and does a lot of homework, and then buys in the store, the customer ends up being a "lost" customer to the online channel, and that creates all sorts of perverse incentives.

We highlight Disney as a company that has done this really well. We have interviewed former Disney executives. If you think about Disney, your interaction, your family's interaction—you have the theme parks, the movies, the video games, the retail stores—you're a very different customer in one branch than in another. But Disney has had to think about these channels so they're not competing against each other for a share of wallet. For example, if you're playing

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a Disney video game, if you're struggling on level 13 in the Pirates of the Caribbean game, and you go into the theme park, wouldn't it be so awesome if whatever challenge you have on level 13 of the Pirates of the Caribbean game, the answer is just showing up on the screen of your phone as you're standing on line at the theme park? Technologically it's not that hard, and with the MagicBand, Disney has developed technology that makes it possible. The challenge is really organizational: How do you share your contacts? How do you reorganize the company so that all product lines are serving the same goal, that is, creating a unified customer experience?

NS: One line that we heard that I think resonates very well with a lot of managers is, "We force our customers to work through our own organizational chart." For example, with Disney, you have to deal with the theme park operation, and then the food operation, and then the hotel organization, and you as the customer have to work through the organizational chart.

CT: I think Disney has done this well, but other companies who have grown more through mergers and acquisitions, it's different organizational units, it's different management cultures, it's different information systems. All of these things don't like each other, and there's this jungle of the org chart, and it becomes a difficult maneuver to get through it.

NS: This links back to the issue of how companies say "We want to be more customer-centric." How do they treat this customer as this one customer, but this may require these companies to restructure their organization. It's not a technological fix. Yes, technology plays a role, in gathering information, but there are lots of other things that need to be done, like changing incentive structures, reporting requirements, and data-sharing agreements inside the organization to make it actually work.

You mention Disney as one company that has done particularly well in getting customers to touch all parts of the organization, not just theme parks. Who else stands out in your mind?

NS: I think in general, we're at the very beginning of this whole connected strategy thing, but I think Amazon would come to mind as a company that has become better and better at understanding more and more about a particular customer. As a result, they've been able to curate the offering for that customer—"Yes, there are 5 million products you can buy from us, but here are actually the three that you would like." There's a deeper understanding of the customer, and then converting that insight to a particular action that actually creates value for the customer. Amazon is on that path. And they're slowly becoming broader and broader in the offerings that they're giving you. They started out with books, then it was books and videos and entertainment. Now they're starting with food [with Amazon Pantry], and they're sort of growing that space in which they can use their insights to provide value to the customer.

CT: One other company that we feature in the book and that we've done some work with is McGraw-Hill. In the old days, you'd think of McGraw-Hill as a company that sells you or your children a book. The interaction is very transactional; McGraw-Hill has no information about who you are, and they don't even see the sales because those happen in a retail outlet or on Amazon. And their vision now is to sell digital learning experiences. They want you to enroll in a course that sits on McGraw-Hill's platform. And every time you open up the digital book, a link to McGraw-Hill is created. They can track your reading, and through embedded questions, they can track your understanding and they can funnel that data back to the professor teaching that course and tell the professor, "Currently in the Tuesday afternoon class you teach, you didn't explain the concept well. Lots of students

are struggling on test questions." They feed that back to the professor, and hopefully he'll start doing a better job in the classroom. They can even feed this back to the office for the course or the textbook and say, "Look, here's something to be improved."

So that gets to a fundamental practice of our idea of connected strategy—that it's not just making it better for the customer, but there is also an efficiency gain that you create. Ultimately, you learn more about customers and you're in a better position to meet supply with demand. You are actually able to bring down fulfillment costs.

This goes against a lot of what we used to teach in marketing strategy and economics, in that there are these cost-to-quality tradeoffs…if it's better for the customer, it's worse for the company. The pitch here is that this increased connectivity allows us to break the tradeoff. And by connecting with you, we are learning more about you and more about the entire market, and we can do a better job at both making customers happy and increasing our profit margins.

Pharma is another example. It has a similar flavor to the book retailer. Pharma doesn't touch the customer. One of the examples we talk about in the book is a schizophrenia drug, Abilify, which is the first drug approved by the FDA with an ingestible sensor you swallow as a pill. That does two things: It's good for the patient, and the family, and the caregivers, because we can keep you medication-adherent, but as the receiver of all of this data, we start to see how patients behave. We have a direct link from the app to the patient. That's overcoming a burden that kept many of the pharma companies at arm's length from patients. Now we get patient data every day.

We talked about the industries and companies doing connected strategies better in this first wave. Which industries or companies are still struggling to get a strategy together, and finding themselves having to work a little bit harder than others?

NS: The intriguing thing is that everyone is thinking about it [connected strategy]. Usually it's people who are in fairly commoditized businesses. They're saying, "Well, you know, we're selling this commodity product, there is a market price here. How can I differentiate my offering?" This is usually more in a B2B context than in a B2C context. And our pushback on this is, "Well, this is exactly why you should be thinking about this, because you cannot think about differentiating on the products. So what else can you do?"

The way that it's described in the book is, you want to think about the whole customer interaction as a journey that the customer has with you. Too often, we ask companies, "What are the value drivers for your customer?" And they're thinking about how good is the product or the service that they're selling. But that's really just part of the customer journey. The customer journey really starts with the customer having some latent need. Sometimes I use the examples of Netflix and Amazon Prime video. Imagine these companies have exactly the same videos. Which one would I prefer? If I go to Netflix and say I'm in the mood for a comedy, Netflix says, "That's great! We have 10,000 of them!" That's not helpful. But if it can tell me, "These are the three you might like," it's not just about how great is their product offering, it's helping me in the longer journey.

Pushing this a little into the future, it could be, "Your Fitbit tells me you're depressed. How about a comedy tonight?" Or going even a little further, "You haven't been out in a little while. I've booked a concert for you." This is the automatic execution pathway, and again, not everything will go down this path.

But coming back to your question of who is struggling with this, it's people who tend to think very narrowly. "I'm in the business of selling you widgets. I'm in the business of selling you cement. I'm in the business of selling you steel. How the heck can I have this connected strategy?" Well, if you could know the production schedule of the customer, or even insights into the new products that they're thinking about—"In your R&D, you're thinking about this project, and it requires you to have this alloy, and we are currently developing it"—all of a sudden, this is a very different relationship that you're building up, rather than just waiting for the RFP to come

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in. If you're waiting until then, you are in a transactional relationship, and the only thing you can compete on is price.

CT: It's always very hard to forecast any kind of technologic future, but we are very confident that the future's going to be smarter and more connected. But if you think about any of the industries we've talked about, including healthcare, it is 0.01% of the market. The world is so far behind. Talk about cars—everyone is talking about connected cars and self-driving cars and all of this good stuff. The reality is, walk into any dealership, it's a very old business model. It's a product-focused business. They make money by selling cars, by selling services, by selling mobility solutions. They sell cars, there's inventory and there's production. It's a very old-fashioned business.

Healthcare and education are no different. We have Wharton lifelong learning, but at the end of the day, we're here to sell you an MBA program, to sell you executive education. So I think while we're very confident about the direction, I find it in my day-to-day life frustrating to see how far we are behind in many industries. No matter if you're talking about healthcare, education, cars, financial services, everything that we use on a daily basis, it's just remarkable how much it can be improved with a little more connected technology.

Connectivity, AI, and sensors—those three things will make a huge difference. Again, we know the future is going to be smarter, it's going to be more connected. And now it's up to us as executives to envision a business model, a way of doing business, a way of selling not only products but solutions, a way of monetizing these solutions. It's up to us to envision how this is going to play out. The excuse that it's technologically not feasible—I think it's probably already no longer true, but certainly in 5 or 10 years from now, that answer will not be a good excuse anymore.

For leaders, what is the advice you give for them to institute these changes? How should they go about setting up strategies?

CT: One thing in our book is that we have workshops, worksheets. You fill out the elements that constitute a connected strategy, and we walk you through that process of starting initially with the customer, understanding that customer journey. We talk about four steps: recognizing the need, turning the recognition of a need for a request for a product or a service, then there is the response, and you want to repeat that to stay in business with each other. We call these the four Rs—recognize, request, respond, repeat.

You start with that. You have to think, where are the pain points, and where can we generate more value along this journey?

Once you are there, you have to think about not only what you are going to provide to the customer, but the cost. You have to think about how to make that possible in the fulfillment, in the operations end of the business, without having the costs go through the roof. And it's not only the connection you have outbound to your customers. It's the connection you have back up into the chain with your suppliers. We have different business models of how firms are interacting with their suppliers. And by designing those fulfillment systems, you're going to create the connected strategy piece that actually makes a connected customer relationship possible in the first place.

One of those [supply models] is connected producers, and Disney is one of them, where basically you have vertical control, where you basically do everything yourself. It might be cultural, it might be IP reasons. At the other extreme, we have companies—we call them "cloud orchestrators," like Uber and Airbnb—where you do very little short of basically organizing the market for these services. At the very extreme, you have peer-to-peer networks, where you have people helping each other without there being a clear demarcation line between who is the customer and who is the supplier.

NS: On the practical side, in terms of implementation, the important thing is to start with a concrete project. I think this is where we see people getting overwhelmed, thinking that they have to rewrite and restructure their entire organization. In practical terms, once you've gone through all the steps—you understand customer needs, you understand information flows—you start generating some ideas. Then you take a concrete idea and use it as a test case to implement, rather than trying to restructure your entire organization. Start out with a well-defined initiative.

In the book, we make the point that it is unlikely that you'll jump from transactions to trusted advisor in one step. This is a process, where you try and convince your customer to give you some data, and you can show them how you'll make their life better. And once you've convinced them that you've made their life better, they can give you some more data. You're slowly building up that relationship and that trust. Eventually you can become their trusted advisor for entertainment or whatever that is. But trying to jump there is probably unfeasible. AQ