Creating business insight

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A BRAND WAS losing market share to a dangerous and new type of competition. The case study shows how business insight led to a radically different competitive strategy.

The new competition

A European fixed-line telecommunications company was being attacked by cable operators and was losing customers at a rate of 50,000 per month. This was a serious haemorrhaging of revenue – €200m per year – which in a fixed-cost business meant that most of this loss fell straight to the bottom line.

The cable operators offered cable television and cheaper cable telephony. According to the company's competitor intelligence the line rent could be 25%, or as much as 43%, less than that of the fixed line company. And there were significant savings on call charges too.

The fixed-line company's response had been to introduce various price packages. There were two major schemes that were very heavily promoted with the result that 78% of customers had signed up to Scheme 1 and 25% to Scheme 2 (some customers were on both schemes). The problem was that the brand continued to lose market share.

We were invited by the marketing director to help develop an alternative strategy to stop or at least slow the loss of customers.

Organisations awash with data

Our reflex wasn't to generate more research, it was to analyse and use the data already available. Organisations are usually awash with data. All different kinds of internal data, market research and sometimes data in the public domain that the organisation can access. Much of this data lies in silos and in our experience has value far beyond the reason for its creation. In this example there was a large market research library and also regular tracking, competitor intelligence and amazing billing/sales data – telecommunications companies have perfect sales data. When tackling the competitive problem, at the back of our mind, was the thought that perhaps this asset might be useful at some point.

The large market research archive contained just under 2,900 reports! 'Key word' searching reduced the total to 260 documents and reading summaries narrowed this further to 85 which were then analysed in detail. However, the eventual yield was small. Out of the 2,900 there was only one qualitative report that provided a clue as to how the cable threat might be contained. This report was several years old and long forgotten.

Why was the yield so low?

We often find that really important issues facing organisations have not been the subject of systematic investigation. There may be, as in this case, a piece of qualitative research that has looked at the issue at some point and there are often lots of other studies or pieces of research that focus on or have tracked aspects of the issue but they are usually fragments or at best pieces of the jigsaw rather than coordinated attempts to reveal the full picture. Reasons for this will be examined later.

The needle in the haystack

This one qualitative research report had within it a nugget of insight upon which the strategy could be built. However the nugget lay buried. It was one short paragraph in a 130 page report and it was not even mentioned in the 'Implications for the Research Findings'.

The paragraph we found so revealing was as follows:

> *'The link between cable TV and cable telephone is very strong. However, cable TV is the main motivation, not cable telephone. Cable telephone is seen as an 'add-on' to the television at the time of purchase.'*

For us this paragraph leapt out of the page because it was rich with implication. If what it said was true then the price schemes were addressing the wrong issue – cheaper telephony wasn't the motive for switching; no wonder share was still being lost. But cable telephony was a lot cheaper – did this play no part? Surely it must?

Serendipity intervenes

It was at this point that serendipity intervened.

A team member reported that a cable company's salesmen were making calls in his area. Word had spread and his children seemed to be confirming the qualitative research – they were pestering him to get cable television.

Here was a chance to do some real life observation. So an appointment was made. The salesman began his pitch by focusing on the extra television channels available. Towards the end he brought forth a telephony price list showing how much the lower telephone charges were (shown in Figure 1). And then he said:

> *'With your phone bill the savings you make will pay for the television channels.'*

Suddenly the whole thing fell into place. Price wasn't the reason for wanting to switch but it sweetened the deal and made it easier to close the sale.

Revisiting the qualitative research there was mention of just this phenomenon in another part of the long report. However its significance hadn't sunk in till this point. In addition further enquiries of the company's competitive intelligence unit confirmed that this way of selling had been introduced by the cable companies a year previously. So the observation of a team member wasn't

Cheaper calls from the cable company

	Tariff Period		
	Cheap	Standard	Weekend
Chargeband:	% difference	% difference	% difference
Local	-27	-29	-29
Regional	-16	-18	-8
National	-16	-11	-8

Figure 1
Source: Competitive Intelligence

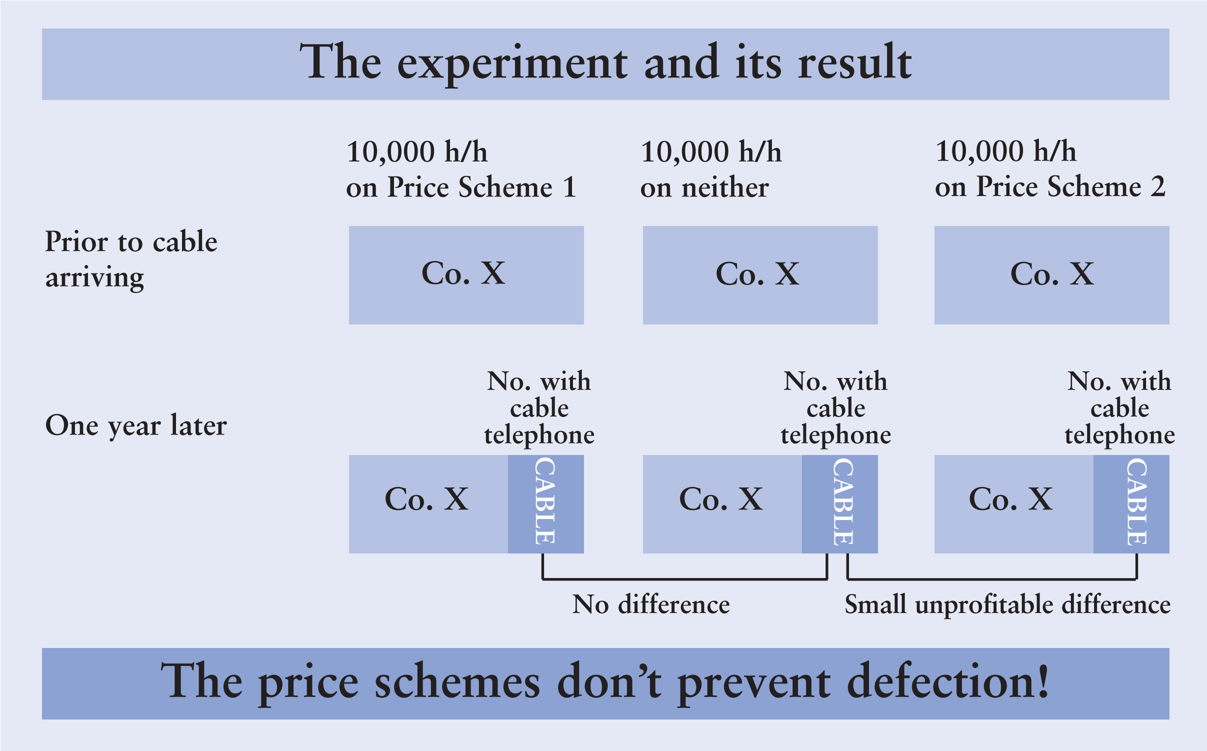

Figure 2

atypical and it crystallised how the sale was made and the role of price in the sale.

But who would believe it?

A lot of money had been spent on the price schemes and here was some qualitative research, several years old, and the personal experience of a team member saying that the marketing effort had been barking up the wrong tree. We needed more substantial proof.

If the price schemes weren't working then we ought to be able to prove it. We ought to be able to prove that if a customer is on a scheme it doesn't reduce their probability of switching.

We set up an experiment and this is where the customer records came in. We negotiated access to the company's internal billing records (the records were rendered anonymous to overcome confidentiality issues) and randomly selected 10,000 households who were fixed-line customers and had been on Price Scheme 1 when cable arrived in their street. And a further 10,000 who had been on Price Scheme 2 when cable arrived. And finally 10,000 who were not on any price scheme. We then looked a year later at the proportion of each group that had switched to cable.

We found the proportion switching for all three groups was virtually the same.

This was direct evidence that the price schemes were not preventing defection. Figure 2 summaries the panel configuration and the result.

Stopping the share decline

Our experiment had proved that the price strategy wasn't working but it hadn't shown what would. We asked ourselves the following question:

> *'If our theory is correct and customers switch in order to get more channels then, if we had a magic wand, what would inoculate the customer base against the temptations of cable?'*

Common sense would suggest that if customers already had a wide range of TV channels – from say satellite – then, when the salesman called, there would be no need to switch.

This became our hypothesis and we looked around for ways to substantiate it. Fortunately quantitative monthly tracking data was available and this came to our assistance. We scrutinised the questionnaires and found that for some of the months there was a question on the ownership of satellite and for other months whether the respondents lived in streets where cable services were available and whether they were cable customers. We were able to assemble samples of respondents for whom both these sets of questions had been asked and then analyse the effect satellite ownership had on cable uptake.

The result was that if a home didn't have satellite then a whopping 33% switched to cable – but if they were satellite owners then only 13% switched – a 63% drop. The pattern was totally in line with the predictions of the theory. Figure 3 shows these results.

Television was the key and the numbers proved it. As so often happens with hindsight the result seems obvious but this was not company thinking at the time.

A causal understanding leads to strategy

With our new understanding it was clear what to do. What was needed was a joint venture or joint marketing with the satellite operators to accelerate satellite uptake. And to target areas that competitor intelligence indicated cable operators were scheduled to go. The company took the joint marketing route.

Implications of the case study

There are a number of implications for different players in the insight process that emerge from this study.

Last November the marketing community mounted what they described as The Marketing Summit to set the future agenda for marketing. McKinseys did some research for this amongst CEOs and marketing directors. A key finding of the work was that CEOs and marketing directors reported that they were dissatisfied with the data they were getting. They thought customer understanding was vital but they wanted genuine understanding and not, what they referred to

Does availability of extra channels reduce defection?

Homes with cable in their street

	Homes without satellite TV	Homes with satellite TV
Homes with cable telephone	33% (100)	13% (38)
Homes without cable telephone	67%	87%

Yes – satellite removes motivation from cable telephone

Figure 3

What CEOs and marketing directors must do

- If you genuinely want customer insight you have a big part to play
- Don't guess or assume the strategic answers prior to investigation because insight's scope is then reduced to fine tuning
- Ask helicopter questions
- Demand evidence-based answers and a joined-up causal understanding of how the situation can be changed
- Provide the necessary resources

Innovative strategies

Figure 4

as, 'the same data we have had for years'.

This case study has lessons for how to get this genuine understanding and a large part of the answer lies in the hands of CEOs and marketing directors themselves.

What CEOs and marketing directors must do

The case study's distinguishing feature is that the project was defined in terms of the end-objective – how to slow the loss of customers. The task was to answer a key strategic question. In our experience this is rare. Much more often insight departments are tasked with optimising tiny parts of a company's offer in order to increase customer satisfaction or, as in this case, to design the optimal price packages. But when these elements are not the causes of the problem this is fiddling while Rome burns.

We suspect that the big questions are not investigated because senior people lay down the strategy at an earlier stage, often based on slender evidence, which then can never be challenged or even investigated lower down the hierarchy by more junior executives who are in any case only responsible for part of the effort.

CEOs and marketing directors say they want seminal customer understanding, but if they genuinely do, they must stop making assumptions and start asking helicopter questions and demanding evidence-based answers.

The lessons for CEOs and marketing directors are summarised in Figure 4.

Insight managers

Insight managers have a big role to play. They need to ask questions and challenge the company's assumptions. They are uniquely placed to do this because they know the problems their organisation faces and with this inside track can hit the hot buttons of senior management. It will be music to the ears of finance directors and CEOs that all that expensive data they have already collected contains answers to their problems. Of course it will take some money to unlock the secrets but nothing compared to the cost of its collection. Spending a little more releases its value.

How to create business insight

In today's competitive world the companies that win are the ones that best understand their customers and competitors and therefore how the business variables at their disposal can be deployed in the most efficient way. Organisations that use their data most effectively to create business insight will gain competitive advantage.

Large organisations don't use their data well. As this case illustrates huge amounts of quantitative and qualitative information lie in silos where it sits discarded and forgotten after its narrow purpose has been fulfilled. It needs to be analysed and synthesised to reveal its secrets and produce customer insights that are the basis of strategy.

What is needed is not simply data mining but data detective work, a much wider problem-solving activity. The starting point for data detective work is a specific issue or problem. The 'crime scene' is all the relevant data at the organisation's disposal – internal information used to run the company's processes, market research in all its many forms, as well as surveys and studies in the public domain. Often, as in this case, new strategies can be revealed without the need for new data.

If this is to happen there must be a change of attitude at the top. Senior executives need to make fewer assumptions and ask more helicopter questions of their insight departments and be more open to and supportive of them if they are challenging assumptions. This is how senior management will get the genuine understanding they want and not the same data they have been getting for years.

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Creating Business Insight: Winning paper for the MRS Insight Management Effectiveness Award, 2005–2006

Judges' comments:

'The judges found this entry to be painstaking, theory-driven, investigative, focused, revealing and strategically challenging. They believe that anyone who wants to know what true "insight" should be must read this paper.'

'Every now and then an award entry pushes all the right buttons leaving you wanting more. This is one of the best of this rare breed.'