Putting the Consumer at The Heart of What We Do

A Guide To Driving Success in the Age of Consumer-Centricity

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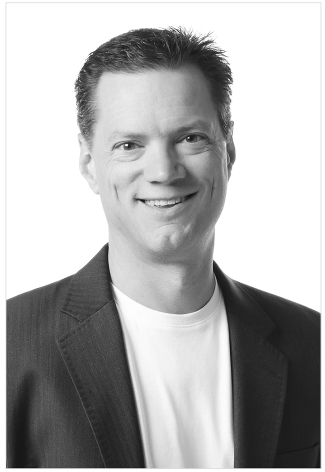
FORWARD FROM

Geoff Walker



I've always been interested in tracking young companies that are being disruptive to their industry.

Before its acquisition by Unilever, Dollar Shave Club was the ultimate example. Offering a better price, an easier experience and a product that was good enough in the eyes of the consumer, Dollar Shave quickly established itself in a market long dominated by Gillette.

That it took sufficient time before Procter & Gamble-owned Gillette could properly respond to this threat is typical of large legacy companies. These corporate behemoths have established systems, whether with their market strategy or IT infrastructure, that create the syndrome of "We've always done it this way."

This gives upstarts a major advantage. Having no legacy systems or processes, they can quickly make it difficult for their competitors to respond to new needs and demands in the marketplace. As a result, they so often succeed at offering a superior experience and greater convenience at a more competitive price point.

Altering their business models to respond to the challenges presented by young upstarts is the greatest challenge facing well-established companies today. That is why I am so passionate about monitoring these new entrants, and gauging their ability to disrupt their industry. In doing so, we learn where the market is going, how consumers' needs are changing and what large companies must do to respond.

Created with my partners at ZEITGUIDE, a research advisory firm that studies how our constantly changing culture impacts business and society, this digest expounds on the challenges presented by digitally savvy upstarts, and the moves made by legacy companies to respond.

My hope is that this work can, in its own small way, inspire anyone fighting for needed change against the forces of "We've always done it this way."

Regards,

Geoff Walker

Here at ZEITGUIDE, going back as far as 2010, we've been tracking the impact digitally innovative upstarts have posed—and continue to pose—for legacy businesses.

Even at the outset, it was clear that new entrants to the market were savvier than anyone else—way ahead of the game with their canny use of digital technology. What's more, they've incurred lower costs than those of established companies, which has resulted in lower entry barrriers—a benefit that's truly unprecedented in the history of the business world. At the same time, they've been nimbler than the rest of the pack in responding to the needs of the market—agile enough to innovate at a rapid pace, while also grasping how social media can amplify their brands and simultaneously gain new customers.

But 7 years later, if we truly break down how these digital-first or pure-play companies continue to succeed, it has everything to do with digital technology permitting them to circumvent the middleman and form a direct conduit with the consumer.

Indeed, this readymade consumer access has enabled a more seamless, frictionless experience for consumers to get what they want, when they want it. But it has also allowed businesses to collect real-time data on their consumer, providing an understanding of who that consumer is, what his or her needs are and how those needs are likely to evolve in the future.

By so doing—remaining constantly connected with their consumer and putting the customer at the core of everything they do—these companies are not only ensured greater success, but are able to maintain and expand their customer base with minimal effort.

These new rules of engagement present a unique challenge to Mattel—a company that has long managed its relationship to the consumer through its retail partners, wholesalers and distributors–as well as its paid and earned media.

But through studying the innovative approaches of the digital upstarts, as well as the responses already in evidence from other legacy companies, we see a blueprint emerging for meeting today's challenges and thriving in the future.

I hope this particular ZEITGUIDE illuminates what you need to know about this new age of consumer centricity and leaves you inspired and prepared to move forward.

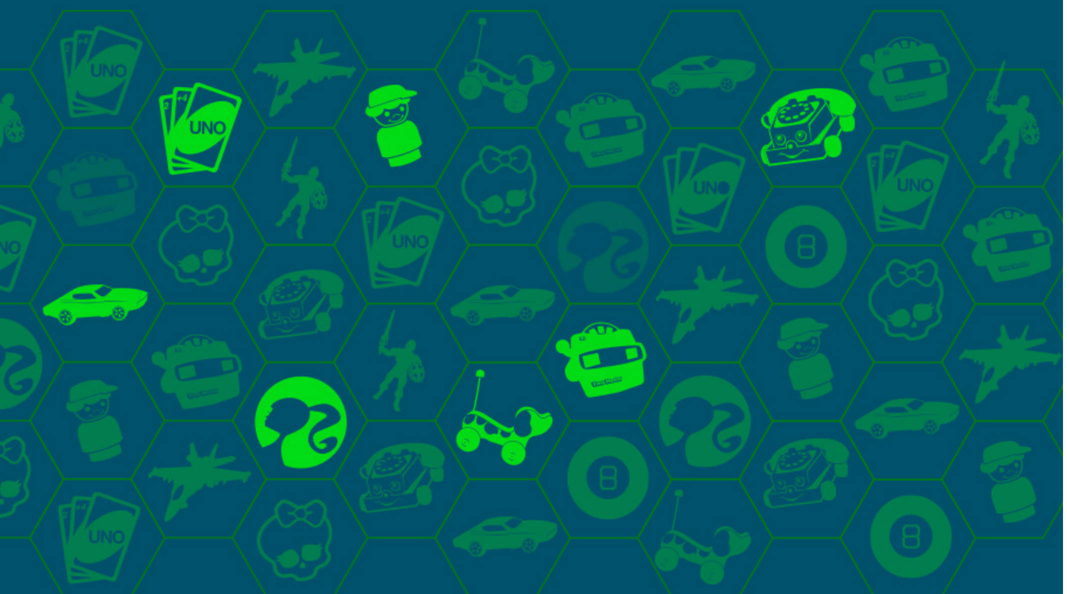
It's my firm belief that this particular ZEITGUIDE will offer you multiple benefits—not only leading you into the new age of consumer centricity, with its weaponization of information, but allowing you to excel faster and with greater assurance than ever at pinpointing and developing more of the iconic goods that have long defined Mattel's reputation—goods that will propel you into a prosperous future.

Keep learning,

Brad Grossman
CEO & Founder, ZEITGUIDE

CHAPTER 1:

The Digital Bypass



We feel it every day. How we find the products we want, how we're dealt with as customers, how we shop: it's all changed. Consumers have more agency than ever these days. They can price-compare, chat with a sales rep online, purchase what they want and have it arrive at their doorstep the next day (and sometimes the same day)—and even return it that afternoon, if they wish. And, importantly, they have more choices, too.

How can businesses keep a competitive edge in this crowded landscape? To succeed, they must rethink their relationship to the consumer: transitioning from manufacturers that simply sell products through a pipeline to services that put the consumer at the heart of everything they do.

Welcome to the age of consumer centricity.

Businesses that succeed today employ a constant connection to their customer. Think of the digital-first disrupters that have overtaken legacy industries: upstarts like food-delivery service, Blue Apron, or mattress innovator, Casper, or one of the FANGs (Facebook, Amazon, Netflix and Google) who are winning by continually collecting valuable insights about their customer to deliver forward-thinking convenience and utility.

The leader of the pack of consumer-centric tactics is perhaps the most familiar: Amazon. A customer-centric mindset has pushed Amazon to expand from an online bookseller to a behemoth across retail, entertainment, hardware and web services. Each new venture, including the acquisition of Whole Foods this past summer, gives this mega-business further access to customers, along with a greater and greater understanding of just what they'll want and need next.

Amazon leads for a few key reasons. Its recommendation engine uses 20-plus years' worth of information on consumer tastes and behaviors to anticipate everything they need and want, before they even know they need or want it—and suggest targeted new products along the way. Subscriptions and automatic reordering take away the need for customers to reevaluate the products they use. By making everything easier and specifically tailored to each customer, Amazon makes its service not just indispensable—but the default choice for many consumers.

"We think of ourselves as tied to our customers, and we're trying to work backwards from their needs," CEO Jeff Bezos has famously said, "and we'll learn whatever skills we need to service our customers."

The consumer-centric innovation that Amazon has brought to the market has raised the bar on how businesses can and should communicate with their customer. Traditional consumer touchpoints include retail partners and media channels owned by networks and content providers. Digital-first companies take an alternate route—a direct conduit to the consumer through laptops, smartphones or voice-assisted home devices. In this

digest, we mine case studies from both well-established and emerging digital players—along with how legacy brands have responded to this digital challenge—to provide a roadmap for competing in the age of customer centricity.

The Direct Line

In this consumer-centric age, it's all about establishing a direct line to the customer. This approach enables companies not only to offer a better price and greater convenience, but to provide exceptional customer experience.

A mattress company provides an excellent example of this.

Even as more shopping migrates online, certain purchase decisions have been resistant to abandoning the store or showroom. Who would buy a mattress without first going to a brick-and-mortar store to test it out?

Enter Casper, the most successful online upstart looking to change the way mattresses are purchased. The company has increased annual sales to over $200 million since it launched in 2014, and picked up a $170 million round of investments that increased its valuation to over $750 million.

Here's how it works: Instead of spending time in a showroom and dealing with a pushy salesperson, Casper customers can finish their order in a matter of minutes online. They simply decide which size mattress they'd like and wait for its arrival within a week. For those uncertain about the feel of the mattress, Casper offers a 100-day trial period, during which time returns can be made for a full refund. They even take customer service to new heights with their "snooze specialists" being available 24/7, as well as their sleep advice blogs.

But here's why Casper is such a success: it keeps its customer engaged. Consumers typically shop for a new mattress every 8 -10 years. That's a long-game relationship to maintain. But as co-founder and COO Neil Parikh describes it, the company uses this time to learn more about its purchasers, and turn them from customers to advocates. "We use every conversation to learn something about the customer. We know how long you've had your bed, and if you have kids or a pet. We keep track of all that, and then send people anniversary gifts, or dog beds. It's not just about selling you a bed. It's 'How do I make this person our biggest advocate?'" And, of course, advocates are quick to share their favorite brands with their friends.

Buying a mattress is just one example of a consumer experience that has been transformed by digital technology. Here's how other companies have changed their industries:

COMPANY : VERTICAL	CUSTOMER NEED MET
VENMO : BANKING	By devising an easy way for friends to send money to each other, Venmo has eliminated what was once the pain of splitting the check in a restaurant, paying that co-worker back for picking up lunch or chipping in gas money on a road trip.
SPOTIFY : MUSIC	Spotify allows listeners to stream music from their favorite artists—and find new ones to love with their recommendation algorithm. Through analyzing that user's listening history and comparing it to millions of others' histories, Spotify finds songs that those of similar tastes are loving. By computing the wisdom of the crowd, Spotify's algorithm delivers recommendations with a human touch.
WAYFAIR : FURNITURE	Wayfair takes the pain out of furniture shopping by offering lower prices and the convenience of e-commerce—along with a robust data analytics platform—to create personalized shopping experiences. This is driven by targeted emails with product recommendations based on a customer's prior engagement, purchase history and demographic information.
BRANDLESS : CPG	Brandless is an online seller of household staples. In place of specifying a brand name on its packaging, the product label includes such details as whether it's organic or has no added sugars. As brand recognition declines among younger users, these considerations, plus savings up to 40% versus supermarket items, have made Brandless a success.
TESLA : AUTO	Tesla has set the standard for luxury electric vehicles even as adoption and consumer understanding of electric vehicles remain low. To combat this, Tesla offers a direct-to-consumer model. Their smaller, no-inventory showrooms are located in dense, urban spots close to its likely customers. These showrooms double as educational centers for electric car technology, with sales reps focused on winning converts to electric cars as a concept.
LENDINGTREE : BANKING	Going to the bank to ask for a loan is nobody's idea of fun. LendingTree demystifies the process. Customers simply fill out a form online outlining their needs and credit history, and LendingTree shows offers from multiple banks. The service, which is free to customers, makes money by charging banks a fee to be featured on its website. For customers, the service eliminates the legwork of approaching multiple banks and makes a confusing banking industry more transparent.
BLUE APRON : GROCERY	Everyone wants a home-cooked meal. But, decreased leisure time and increased work demands have made it harder. Blue Apron solves this by delivering pre-measured ingredients that customers can cook at home, usually in under 30-minutes. That means more time for yourself or your family, and less food waste.

Dominance with Data

In the digital age, data is king. The more companies can learn about their consumer, the better they can intelligently drive innovation to their services and further their competitive edge.

The reigning king of data is Netflix. Originally a snail-mail DVD rental company that disrupted Blockbuster and the video rental industry, Netflix began changing course by pouring substantial resources into an online streaming service. At its inception, the service could not deliver the same quality picture as a DVD's. But what it could do was revolutionary. The service collected valuable data on what, when and for how long viewers watched content. This was a game changer. Not only did the data help predict viewers' preferences, making the service feel personalized and reliable, it also informed the company's next big move: original content. Because Netflix already knew viewers' predilections, it could target the kind of programming its viewers would want, and move confidently on its new business venture. In short, data let Netflix anticipate success.

Netflix's first original series, "House of Cards," became a hit with fans and critics alike. But its success wasn't dumb luck. The data Netflix accumulated provided insights that shaped a key decision it would make: U.S. fans had watched the British version of the series, the genre was popular, and director David Fincher and star Kevin Spacey were popular with its subscriber base. And then came the last and most critical step to not just to make this series premium home viewing, but to make it addictive enough to binge-watch every episode over a single weekend.

The series' success was measured by the ultimate reward: subscriber increases. But keeping subscribers once they'd finished "Cards" required a different trick—providing smartly curated recommendations for what to watch next. A typical viewer might scroll through 10 to 20 titles before making that decision. Netflix knows if one of these titles doesn't pique interest, it risks

viewers switching back to cable or Amazon Prime. By Netflix's own estimate, 80 percent of the hours streamed on its service are of titles recommended to viewers, as opposed to titles they search for. By knowing its customer and offering intelligent, personalized service, paired with the informed, calculated risk of original programming, Netflix not only keeps its base viewer, it continues to attract new viewers every day.

Digital Companies Go Physical

Consumer-centric innovation isn't limited to the digital space. Digital brands have leveraged what they've learned about consumer habits online to inform their moves into brick-and-mortar territory. Some, like eyeglass maker Warby Parker, have opened their own shops. Harry's shaving products and Casper mattresses, meanwhile, have chosen to strike up distribution relationships with Target. Amazon has opened old-fashioned bookstores that stock titles known to sell well locally. And Chinese ecommerce powerhouse Alibaba has opened supermarkets where customers not only can shop and dine, as they would in many typical grocery stores, but also select items for home delivery.

CHAPTER 2:

Legacy Learners

The digital-first companies mentioned in chapter one have helped shape the current consumer-centric landscape. But legacy companies are catching up. We've identified six which have used digital transformation to keep pace with contemporary demands. In each case study, we see a business facing new competitors and changing consumer expectations, and then responding aggressively with digital initiatives.

Nike

Nike has consistently been at the forefront of consumer trends. Its approach to digital innovation is no exception.

Nike has extended the consumer experience into an entire digital ecosystem to help customers reach their fitness goals. Upon buying a pair of Nike running shoes, the customer gains access to Nike+ apps, which let her join a running club, track her training, share run maps and discover new fitness products. Nike has even opened its ecosystem to third-party developers to create new features and products to benefit the consumer. The one-to-one connection of the digital experience provides Nike with detailed information on who its customers are and exactly how its product is being used.

"The art and science of choice is to find out what the customer values," Christiana Shi told Forbes last year, when she was president of Direct-to-Consumer at Nike. "It used to be just focus groups and then monitoring our sales, and that was it. Now it's a dialogue."

This dialogue has allowed Nike to maintain its relationship with its customers, and to better predict what they'll want next. Last year, for instance, Nike released the Roshe Waffle Racer—an update of its iconic minimalist 1970s track shoe that checked off boxes not only for comfort and performance, but also for popular retro styling and built-in authenticity.

Direct consumer communication has helped Nike stay on top, even in the face of competitors like Under Armor and Adidas. In addition to selling its products through Amazon, as its competitors do, the company is seeing increased sales through its Nike Plus mobile retail app, notes CEO Mark Parker. The app stores customers' sizes, favorite sports, favorite colors—and creates a new avenue for creative promotions. During Game 1 of this year's NBA Finals, for instance, Nike released an exclusive version of Kevin Durant's sneaker—available solely through the Nike app, and only when Durant was on the court. Creative promotions like this have resulted in app shoppers spending twice as much per transaction as brick-and-mortar shoppers do.

Gillette

For decades, Gillette maintained the claim that it was "The Best a Man Can Get." But the rapid rise of competitors Dollar Shave Club and Harry's exposed several realities about the razor market. First, Gillette's pricing, $20 for a four-pack of blades, became an outlier in the market. Second, the convenience of a subscription service beat out features like a fifth blade or flexible head.

These competitors cut deep into Gillette's market. In 2010, the company owned 70% of the U.S. razor market. By 2016, that number sank to 54%. That same year, Harry's and Dollar Shave Club, founded respectively in 2013 and 2011, captured a combined 12.2% of the market.

As a subsidiary of the CPG behemoth Procter & Gamble, Gillette had difficulty making a quick response. But, this year, the giant began to move, dropping its retail prices and ramping up its still-world-class product R&D to innovate the men's razor market. (Think blades designed for male armpits.) This, plus a revamped Gillette on Demand that allowed customers to place an order by order simply by texting "BLADES" to a specific number made subscriptions more flexible—and competitive.

An idea copied from Dollar Shave? Certainly. But there's no shame in imitation. Or acquisition. P&G rival Unilever just up and bought Dollar Shave Club for $1 billion last year. The critical point is that a giant like Gillette can innovate just as effectively when agility and consumer-centric behavior are in mind.

Walmart

Ponder e-commerce innovators, and your first, second and third thoughts might be about Amazon. But there's another familiar name worth a mention: Walmart. The superstore's online sales jumped 67% in the second quarter of this year—a sure sign that the retailer is getting its digital sea legs.

What's made the difference? A series of high-profile acquisitions: the $3.3 billion it shelled out for Jet.com last year, as well as for clothing vendors ModCloth, Moosejaw, Bonobos and Shoebuy, with more pick-ups likely to come. With these acquisitions, the company got the digital expertise it needed to expand its online offerings and make better use of its 4,600 stores as fulfillment centers. With stores located within 10 miles of 90% of the U.S. population, Walmart is positioned to deliver fresh, frozen and general merchandise within two hours, and at a lower cost than any of its competitors.

Walmart has also partnered with the leader of the pack, Google. Customers can now place an order using Google Home, a voice-enabled speaker competing directly with Amazon's Echo. Users who link their Walmart account to their Home device will even get personalized recommendations on which products to buy. Soon, customers will also be able to place orders for in-store pickup as well as order grocery items through Google Home.

But the real shift here is the reshaping of Walmart's mentality towards ease, convenience and consumer-centered thinking. Under the leadership of Jet founder and now Walmart.com boss Marc Lore, Walmart is evolving from warehouse-size superstore to nimble retailer that helps customers shop wherever and however they want. Walmart tripled the number of items available for same-day pick-up at its in-store pickup service and added online grocery pickup to another 500 stores this year.

The company is planning to use store employees for making home deliveries, expanding the notion of what it means to work in a brick-and-mortar store.

Starbucks

Venti green tea frap with java chips and extra whip? Starbucks is synonymous with endlessly customizable orders. Now it's aiming not to make you wait for them.

In 2015, the company rolled out Mobile Order & Pay. Customers can order ahead and get an estimate for when their drink will be ready, eliminating both the ordering and pick-up lines. The app also allows customers to store gift cards and earn reward points through the My Starbucks Rewards program. This year, customers can even order by asking Siri or Alexa to have their drink waiting for them.

Though mobile payment systems like Apple Pay have struggled, sales on the Starbucks app have soared. As of the second quarter of 2017, nearly a third of Starbucks orders have been paid for through its mobile app. Mobile ordering has proven so popular that it's led to delays in customers getting their drinks—a good problem to have. In response, the company is testing text alerts for when orders are ready, and is considering opening exclusive mobile order depots near its current locations.

Currently, the 18% of customers who have signed up for Starbucks' rewards program account for 36% of all sales. On that basis, the chain plans to drive growth through more personalized offers for these customers: think discounts for an iced coffee on a particularly hot day. "The ability to incentivize around specific things that our customers want and that are good for our business becomes the secret sauce going forward," says Starbucks' global chief strategy officer Matthew Ryan. "While digital companies may win in other sectors, we will be the digital company that wins in ours."

Disney

While digitally savvy Netflix has continued to add subscribers, legacy TV continues to be threatened, with TV viewership dropping by 11% since last year among the under-50 demographic.

For Disney, whose cable TV business accounted for 30% of its revenue and 43% of the company's profit in 2016, this trend pointed toward a slow slide to irrelevance as it faced sharp viewership declines this year. To note, Disney Channel and Freeform have each lost 4 million subscribers in the past 3 years. The company's sports broadcaster ESPN has suffered similar subscriber losses after having spent billions on sports broadcasting rights for live games. The outlook has been bleak.

But Disney has a strategy it's poised to implement. It plans to go directly to consumers, removing all their content from Netflix while debuting its own streaming services over the next several years. In 2018, a revamped ESPN "Over-the-Top" (OTT) service will bring streaming to sports fans already accustomed to getting their games on the go. In 2019, Disney will launch its own direct-to-consumer OTT service that includes the Disney, Pixar, Marvel and Lucasfilm libraries, plus original exclusives.

Will it work? Initial indications point to a Disney streaming service finding a willing, paying audience. A recent poll found that 36 percent of 18-29-year-olds and 23 percent of the population as a whole would subscribe to a stand-alone Disney service.

With these services, Disney will have direct access to its consumer, and to the kind of first-party data that drives competitor Netflix. This will aid the company in better serving its fans with the content they love. And in time, this information can drive improvements to Disney's consumer products and theme parks—the kinds of physical touch points that Netflix still lacks.

Audi

The forecast for the auto industry continues to be grim. Today, 41 percent of automakers' profits come from new vehicle sales. By 2030, according to a forecast by PwC, it will drop to just 29 percent, with 20 percent of profits to come from other mobility services.

To prepare for such a future, automaker Audi has pursued partnerships with digital innovators to equip its fleet with the services and technology demanded by today's luxury car buyer.

Audi has invested in the rideshare platform Gett and car rental startup Silvercar (an app that allows customers to book an A4 and then access the car with a simple scan of a QR code). In 2015, Audi teamed up with BMW and Mercedes to buy HERE, a digital map-making service. The three automakers' cars have been feeding data into the service to create the kind of detailed real-time digital roadmaps needed to guide automated vehicles—a concept Audi has in the works. .

Audi's deep-learning concept vehicle debuted at CES 2017 and showcased AI's potential to both handle real road complexities and learn quickly. Powered by NVIDIA, an Audi technology partner for the last decade, the car navigated a course without a driver behind the wheel after only four days of training.

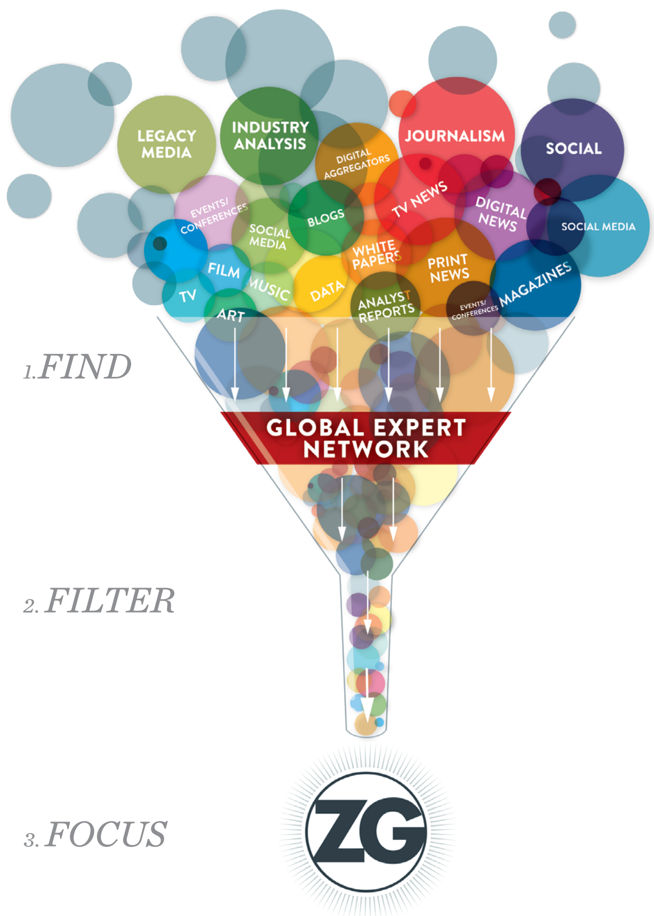
While full automation will take time, a sweet spot currently exists with vehicles that retain the joy of the open road, but are capable of handling safety-critical functions, monitoring road conditions, navigating cities and taking over in mind-numbing stop-and-go traffic. Audi's preferred term for these abilities is piloted driving, which is undergoing gradual implementation, starting with automatic braking in traffic jams and self-parking (available this year in the A8) and adding more advanced features later.

At the same time, as steering and navigating take less attention, passengers will start engaging in other activities in the car. That may mean reading, answering emails, watching Netflix or even shopping. Each experience that becomes available in a vehicle could become a new revenue opportunity for automakers like Audi—and an avenue to succeed in a declining market.

Conclusion

Digital technology has rewritten the rules of engagement with consumers—empowering them as never before. In this, the age of consumer centricity, the brands that win are those that put the customer at the heart of every business decision.

Transitioning from a manufacturer that simply sells products through retailers into a company connected with its customers at every step of the journey is easy to say, and hard to do. By observing the ways new entrants are staying digitally engaged with customers, and the efforts of legacy businesses to respond, we begin to uncover a path forward. **And we see that any company, even the most entrenched legacy business, can digitally innovate to better serve its customers and remain competitive in the future.**



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Using FIND FILTER FOCUS—our signature methodology tapping a wide variety of primary sources and subject-matter experts—we study, advise and publish on what you need to know, as our constantly changing culture continues to impact business and society.

Our mission is to keep leaders and their entire organizations culturally relevant, transformative and inspired for the future.

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