What Brands Need to Survive in a Digital World

By Joerg Niessing , INSEAD Affiliate Professor of Marketing

Before you start making heavy investments in digital, make sure your brand adheres to these three basic principles.

In early 2013, HMV - best-known as a bricks-and-mortar purveyor of CDs and DVDs - appeared to be a clear-cut victim of digital disruption. Debts totalling £347 million had driven the company to the edge of the abyss, endangering more than 4,000 British jobs. As **one researcher** noted at the time, “In the digital era where 73.4 percent of music and film are downloaded or bought online, HMV's business model has simply become increasingly irrelevant and unsustainable.”

Two years later, not only is HMV still standing but it also has been able to turn a profit from all 140 remaining U.K. outlets. Recently, it edged out Amazon to become the U.K.’s leading physical music retailer. HMV’s return from the brink can largely be credited to cost-cutting measures by restructuring firm Hilco Capital, which bought the company after it entered administration. But trimming the fat is only part of the story behind this unlikely turnaround: In addition to capitalising on **the vinyl renaissance**, HMV has drawn in UK customers with more than 500 in-store signings and performances. In Canada, where the chain maintains more than 100 stores, HMV has outlived its competitors by diversifying its wares to include entertainment-themed collectibles and apparel.

HMV's resiliency appears to confirm the success of the strategy laid out by Hilco founder, Paul McGowan: "A renewed focus on going back to [the roots of the brand] and getting the basics right."

Back to Basics

HMV may have a long way to go if it wants to stay competitive in the era of digital disruption, but its recovery illustrates that digital adaptation is about much more than just technology. First and foremost, digitisation is about forming a new relationship with the customer, a much closer connection that requires brands to re-examine how their core strengths relate to the *wants*, not only the needs, of today's customers. Customers *need* a device to make phone calls, surf the web 24/7 and chat with their communities, but they camp two nights in front of an Apple store because they really *want* the new device. Apple fans are motivated by their relationship with the brand and its technology. This level of brand loyalty is the result of all the functional and emotional benefits consumers receive when they buy an Apple product.

However, companies cannot become Apple overnight. According to **a 2014 study**, 88 percent of executives have begun a digital transformation at their company, but only 25 percent say they have completely mapped out the digital customer experience. A big part of the problem is that senior executives don't know where to start.

The digital revolution has changed business in many ways, but not all ways. The basic rules of building customer relationships are still relevant; they just need to be reapplied in the digital context. It is with this in mind that companies should begin their digital transformation.

The Three Touchstones

There are three basic principles that are at least as crucial today as they were before smartphones even existed. The first is ***customer orientation.*** Now, as then, businesses must follow the lead of their customers, and not expect the reverse to be the case. Too many companies think this means giving customers whatever they say they want. Big mistake. As Steve Jobs famously said, "People don't know what they want until you show it to them."

Gillette is a great example. One can safely assume that prior to 1971, when the company introduced the double-bladed disposable razor, customers were not clamouring for a second blade. Yet Gillette kept the blade count rising for decades – the tri-bladed Mach3 was introduced in 1998, followed by the six-bladed Fusion in 2006 – and, with it, the company's profits: In 2008, Fusion became the fastest Procter & Gamble-owned brand to reach US $1 billion in yearly sales. Whether or not more blades provide a closer, smoother shave (as Gillette claims) is almost beside the point. There was something emotionally satisfying about the bigger-is-better shaving experience to which male customers responded with their wallets.

Or, as the sales director of Harley-Davidson once put it, "We sell lifestyle and give away free motorbikes."

In the digital realm, Red Bull has been a master of this approach. After struggling a bit in the mid-noughties with an attempt to broaden beyond its youth-oriented target market, the company opted to go all-in with its customer base. Pursuing new product categories rather than new customer segments, Red Bull effectively morphed into a publishing house focused less around the energy drink than its famous advertising slogan, "Red Bull gives you wings." A visit to the redbull.com homepage reveals no information about the beverage or how to purchase it; instead, there are links to articles and videos on tattoos, BMX biking, and punk rock bands, among other free-spirited topics.

Genuine customer orientation requires not just listening but also empathy. Be aware not only of what customers need a product to do for them but also of how customers want the product to make them feel. Developing and maintaining intuitive connections with consumers will be make-or-break for HMV, if it wants to avoid going the way of Blockbuster.

Customer Segmentation

The second evergreen principle of customer-centricity is ***segmentation***. As advertising-and-media executive David Verklin said, "If you're on the wrong train, every stop is the wrong stop." That is, unless yours is the only train in town.

Monopoly companies can afford to talk about “average” products and consumers; the rest of us are forced to take a step back and think about which consumer segment to focus on. Even with exciting new technology that allows companies to reach millions of people at the click of a mouse, it’s more advantageous to be significantly better than your competitors on the qualities your customers really care about, than a little better than your competitors across the board. It’s dangerously naïve to believe that all your potential customers care about the same things, or that your potential customer pool is limitless. It is so easy to get wrapped up in all the amazing digital technologies that are available for marketers that organisations often forget about saying “no” to some customers.

The dangers of the “mass market” approach are even more pronounced in the digital realm. If your view isn’t fine-grained enough, your key demographic may be swiped by a tiny, street-smart startup. Segmentation is not only more important than ever before, it is also more complex and changeable. Brands should be constantly assessing and re-assessing their audience. Unfortunately, many established companies were behind the segmentation curve even before the advent of digital, and will have to sprint extra-hard to close the gap.

Multi-Dimensional Consumer Journeys

The third principle ties it all together: ***integrated branding at every consumer touchpoint***. This places demands on the entire organisation, because brand integration is impossible when an organisation is enslaved to its silos. One hand needs to know what the other is doing. It doesn’t matter how much money you pour into digital, if the messages you’re conveying across traditional media - online advertising, digital media, and social networks - are not aligned.

Of course, “aligned” doesn’t mean “identical”. Customers interact with different categories of media in very different ways, so successful digital branding must combine consistency with agility. Digital interactions have arguably changed more in the past decade than television advertising has changed since the 1950s. The ever-increasing dynamism of the internet means brands must be crystal clear about what they stand for, so that their identity will translate across various media, communities, and technologies.

Within all this instability, there is one inflexible rule: What brands promise, they must deliver. In the digital world, underperforming brands have no place to hide. Years ago, there was often a big gap between brand reality and perception. Today that gap is getting smaller, as consumer trust gravitates away from paid messages such as TV ads and towards peer-generated reviews and recommendations. One sardonic tweet from a disgruntled customer could trigger a social-media avalanche with the potential to bury your multimillion-dollar marketing campaign. On the other hand, brands whose transparency earns trust online stand to benefit enormously from the loyalty and advocacy of digital natives.

Believe the Hype About Digital. Also, Don’t.

According to the never-ending hype about digitisation, new technologies are busily reshaping business as we know it, and we may as well junk all our old assumptions. The first part is more true than the second: The digital revolution has transformed marketing and is making many of the function’s traditional strategies and structures obsolete. However, the key concept of being customer-centric has not changed. Make no mistake, investing heavily in digital is an inevitability. But doing so without first getting back to basics with the three principles outlined above could very well lead to money down the drain.

My next post will concentrate on the opportunities and pitfalls of digital brand-building.

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