Business Transformation Through Greater Customer Centricity

The Power of Social Currency

AUGUST 2016

VIVALDI_

cmb chadwick martin bailey

Dear Reader:

Why should you care what's inside this report? Because whether you lead a business transformation project, a brand repositioning or new brand development project, whether you are in charge of creating new products, services and seek to help your company to innovate, or whether you merely want to improve your marketing or advertising, understanding consumers and customers matters more than ever. Achieving new levels of customer-centricity should be a relentless pursuit.

This report provides a window into understanding customers today given the social, mobile and digital context in which we live.

We appreciate any feedback about our research, thoughts, and insights, and are happy to answer any questions.

Thank you.

Vivaldi introduced the term *Social Currency* in 2010 and expanded on the research in 2012. These studies established the role of Social Currency in driving preference, and choice and in *building strong brands*.

This year, Vivaldi partnered with CMB, a world-class research consulting firm, in a comprehensive effort to more profoundly and more deeply understand the social lives of customers and what does and does not create Social Currency.

2010

2012

2016

"While a lot of companies are doing digital (transformation), very few are doing it well yet."

———

George Westerman /Principal Scientist, MIT/

What accounts for this high degree of failure? We think it has to do with the fact that consumers and customers change more rapidly than organizations do and companies do not take into account a full understanding of consumers and customers when launching a transformation.

97%

of companies have launched digital transformation efforts

and yet…

70+%

of these transformation efforts are expected to fail

Source: Survey of Senior executives, The Economist – SAP Study, 2016.

Business transformation through technology

Social, digital & mobile lives today

Business transformation can only be successful if it takes into account the changes taking place in peoples' lives…

+

Companies need to comprehensively understand and truly embrace the complexity of the consumer or customer

- Manage their lives and achieve their goals using technology across context and culture

- Make decisions given the limited attention, time and effort available

- Use social media, content, and other sources to inform themselves or entertain themselves along daily life activities

- Extract value and utility from solutions

- Become efficient and effective to complete processes such as shopping for alternatives
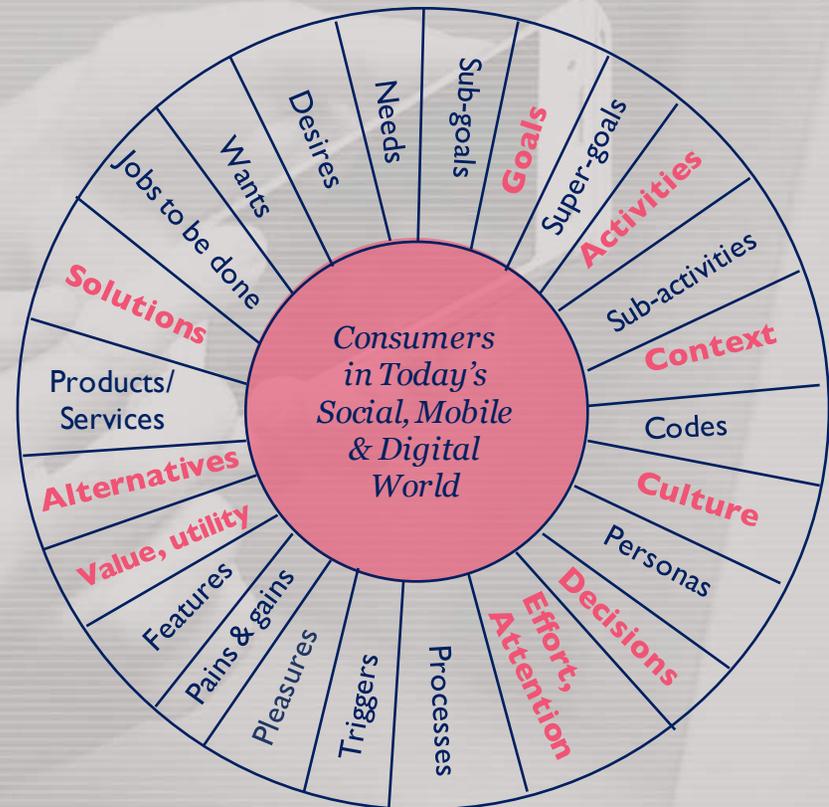
"We fail more often because we solve the wrong problem than because we get the wrong solution to the right problem"

———

Russell Ackoff /Organizational Theorist/University of Pennsylvania

2016 = People acting in service of *themselves*

Today consumers don't serve brands; they serve themselves. They use their social connections to create their reality, to manage their lives, to get the job done whether it is searching, evaluating, or buying or using a product or service or brand, and proactively talk about brands only in so far as it helps them establish themselves.

2010 = People acting in service of *brands*

That was the year when brands and marketers believed that social media, technologies, and currency would be used by consumers to amplify messages, to serve as influencers to other consumers, to become brand ambassadors and to create "earned" media.

Social Currency

measures the ability of brands to fit into how consumers manage their social lives in today's digital and mobile age.

7 Social Currency Dimensions

How much my relationship to the brand plays into my *self-image* and *self-esteem*.

How much I feel a sense of *belonging* or kinship with others who use the brand.

How much the brand facilitates *communicating who I am*.

How much the content shared by/about the brand engages me.

How much the brand helps me forge *new social connections* or relationships.

How much other people help me *discover*, *evaluate*, and *make decisions* about the brand.

How much my engagement with the brand or its customers *enhances the value* I get from the brand.

As an example, the best performing brand in our study, Nike, has an indexed Social Currency composite score of 120 - a weighted composite of the brand's results on the 7 dimensions. This Social Currency score means that in the US, Nike facilitates the identity-building behaviors we've described at a 20% higher rate than the average of the 90 industry-leading brands covered in our study. All numbers on this slide are similarly indexed and represent a market-level snapshot of all US consumers who are aware of Nike.

120

122
PERSONAL IDENTITY

120
SOCIAL IDENTITY

121
EXPRESSION

121
CONVERSATION

119
AFFILIATION

119
INFORMATION

117
UTILITY
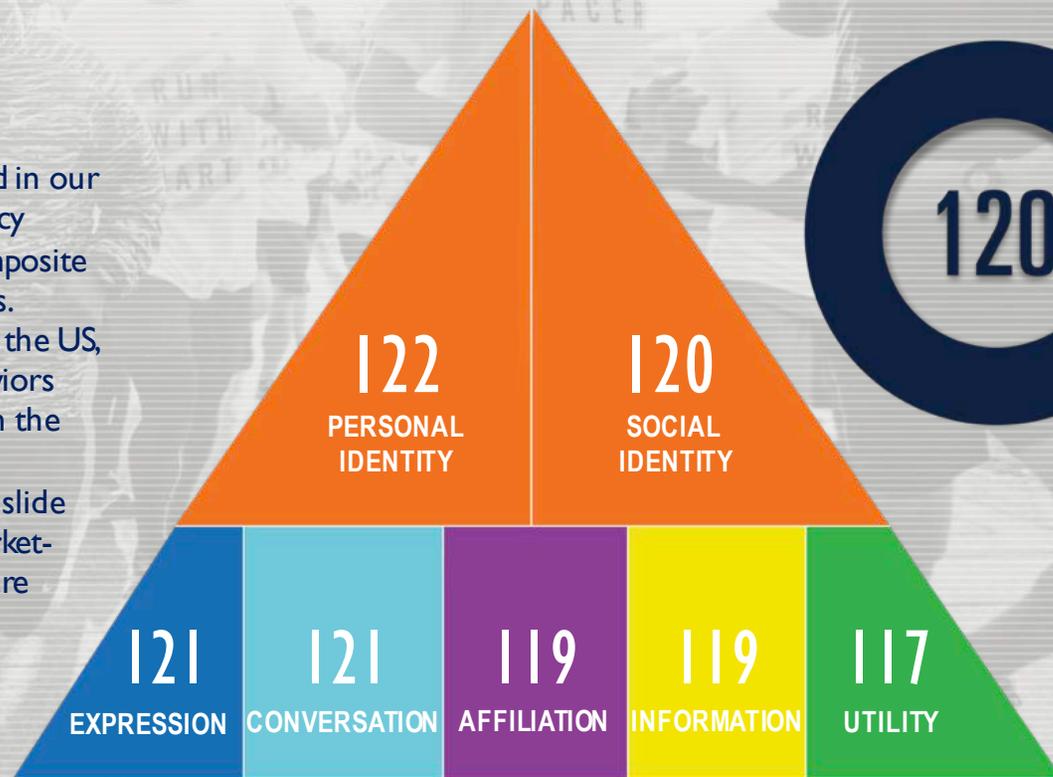
| **SOCIAL CURRENCY = SOLVING THE RIGHT PROBLEM**

Social Currency is a powerful way to achieve the level of understanding of customers required *allowing business transformation efforts to lead to a competitive advantage.*

Social Currency describes how consumers manage their social lives in today's digital and mobile age and how brands or businesses can help consumers make decisions and live their lives more efficiently and effectively.

Adopting a Social Currency strategy will ensure that all initiatives focus on the right problem – Helping customers make decisions and helping customers manage their lives more effectively and efficiently.
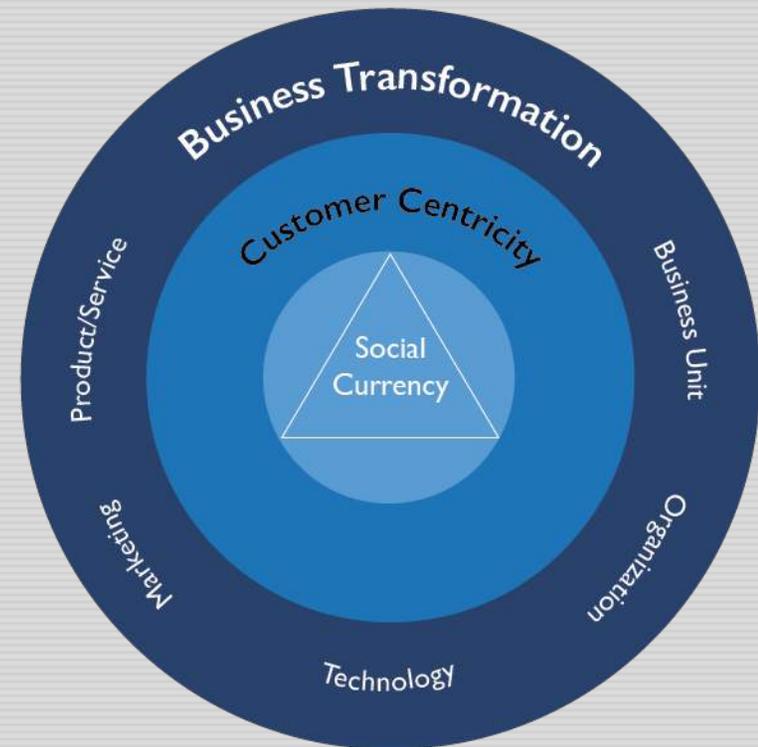
"Motivation, passion, and focus have to come from the top."

———

Kevin Plank /Founder of Under Armour, Inc./

Under Armour has disrupted the sports apparel sector and built a strong brand and successful business by using Social Currency in order to compete against Nike and Adidas, some of the best marketers in the world.

While smaller than Nike ($31 billion in revenue) and Adidas (over $16 billion), Under Armour ($4 billion) has grown rapidly since its founding 20 years ago and has a leg up on competition, to use athletic language, in terms of its $16 billion market cap. This multiple is unrivaled.

Under Armour's success has to do with a number of factors but at its core is how the company runs its business and operations, how it competes on a few fundamentals that keep it close to a rapidly changing customer, and how it leverages Social Currency (see page 18 for its astonishing results in our study).

A differentiated strategic position drives the Social Currency dimensions of Conversation, Expression that taps into Personal and Social Identity

Under Armour focuses on the top end of the performance apparel category in terms of quality and price with a brand positioning that speaks to consumers about the power of their own will. This position is highly democratizing, empowering and inclusive and contrasts to the Nike positioning. Under Armour also nurtures well an underdog position and an attitude and competitive spirit that sets it apart. This brand position helps consumers to articulate their personal and social identities. It drives Conversation and Expression.

Cutting-edge brand building creates Affiliation and Utility

Under Armour competes on parity activities such as great advertising and sponsorship. The "I Will" positioning is best expressed in the ad "I will what I want" featuring Misty Copeland, the first black woman to be promoted to principal dancer in the American Ballet Theatre's 75-year history. It also underlies the sponsorship of Tom Brady, Stephen Curry and Jordan Spieth as well as Linsey Von.

But the true point of difference activity is the $750 million investment in mobile technology. UA Record is a comprehensive health and fitness system. To consumers, it creates Utility and Affiliation. To Under Armour, it is the opportunity to transform the company from a performance apparel company to a technology company.

Relentless and superior product innovation creates Conversation and keeps UA in the news with Information

Under Armour is all about new product, value-added services, added performance, wide product selection, more attractive styling and technical superiority. The original base-layer or compression shirt for footballers is long obsolete, it has innovated beyond it and outcompetes rivals. Under Armour understands how to innovate at speed in mature categories. This creates news and novelty. It drives Information value of Social Currency and it leads to enormous conversation in the high-interest categories in which it competes.

A business model that is built on speed, scale and scope fuels its growth and momentum as a brand and as a business.

This fourth factor is the huge accelerator or multiplier of the other three factors. Under Armour is a rapidly growing firm deploying business transformation in full swing at all times. It does not run at the clock speed of the athletic category but has adopted the dynamics of the fashion industry, with constant changing styles and trends. Scale and scope at speed is the moto. Broader product offerings, new consumer segments, new categories, new markets and additional distribution creates a virtuous cycle of growth and momentum.

112

114
PERSONAL
IDENTITY

111
SOCIAL
IDENTITY

111
EXPRESSION

115
CONVERSATION

110
AFFILIATION

113
INFORMATION

109
UTILITY

120

102
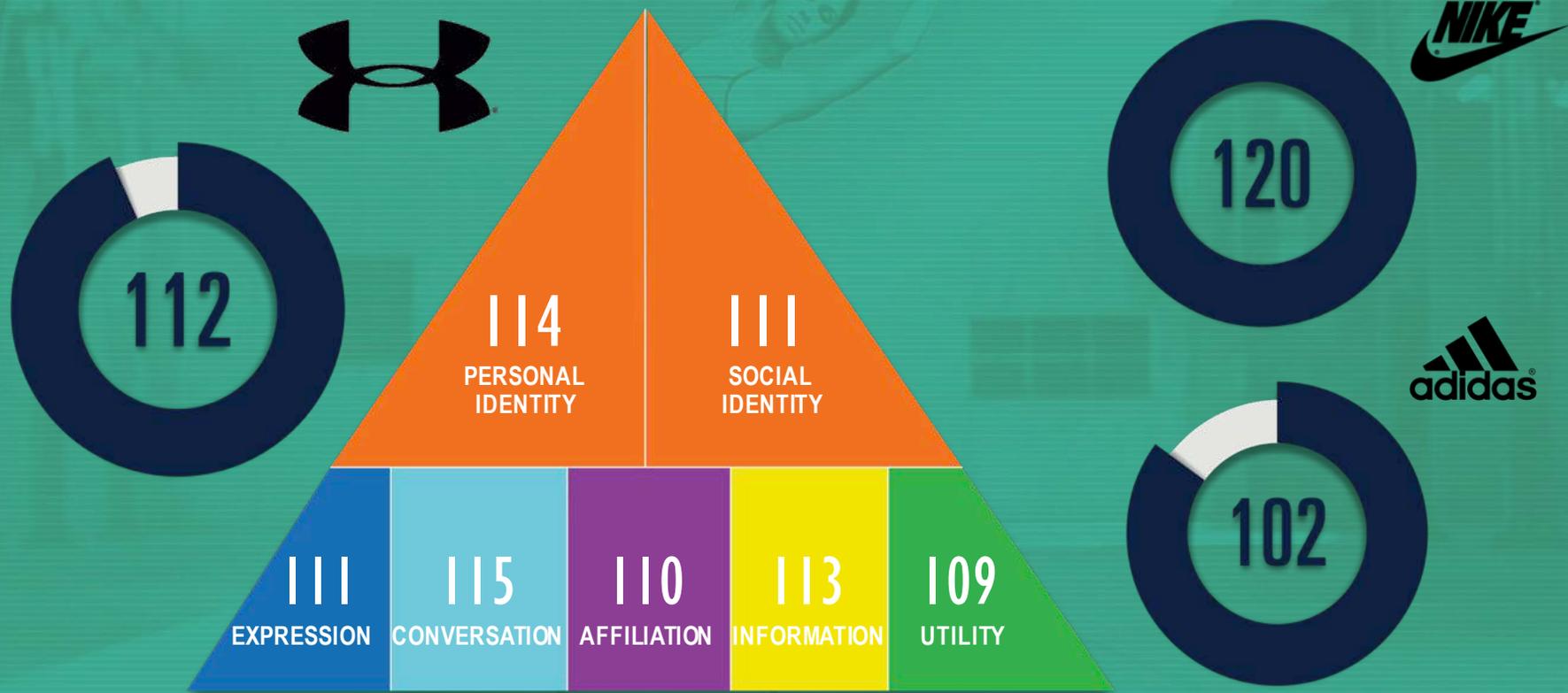
Under Armour punches above its weight when Social Currency scores are compared to company revenues, which is remarkable considering that Under Armour has one fourth the revenue of Adidas and one seventh the revenue of Nike.

"Research is to see what everybody else has seen, and to think what nobody else has thought."

——

Albert Szent-Gyorgyi /Nobel Prize Winning Psychologist/

Top 10 Brands

The brands that emerged as having the highest Social Currency scores in our study represent a diverse set that cuts across categories.

Likelihood to Choose

+52% +51% +48% +43% +43%

Our study shows that a higher Social Currency increases consumers' likelihood to choose a brand by +27% on average. Southwest topped the charts at +52%. The higher a brand's Social Currency score, the more likely it will be chosen at the time of purchase.

| **SOCIAL CURRENCY AND PRICE REALIZATION**

TOP % BOTTOM %

Airlines

+14% +12%

Beer

+27% +11%

Food

+33% +12%

Auto

+26% +12%

Fashion

+37% +9%
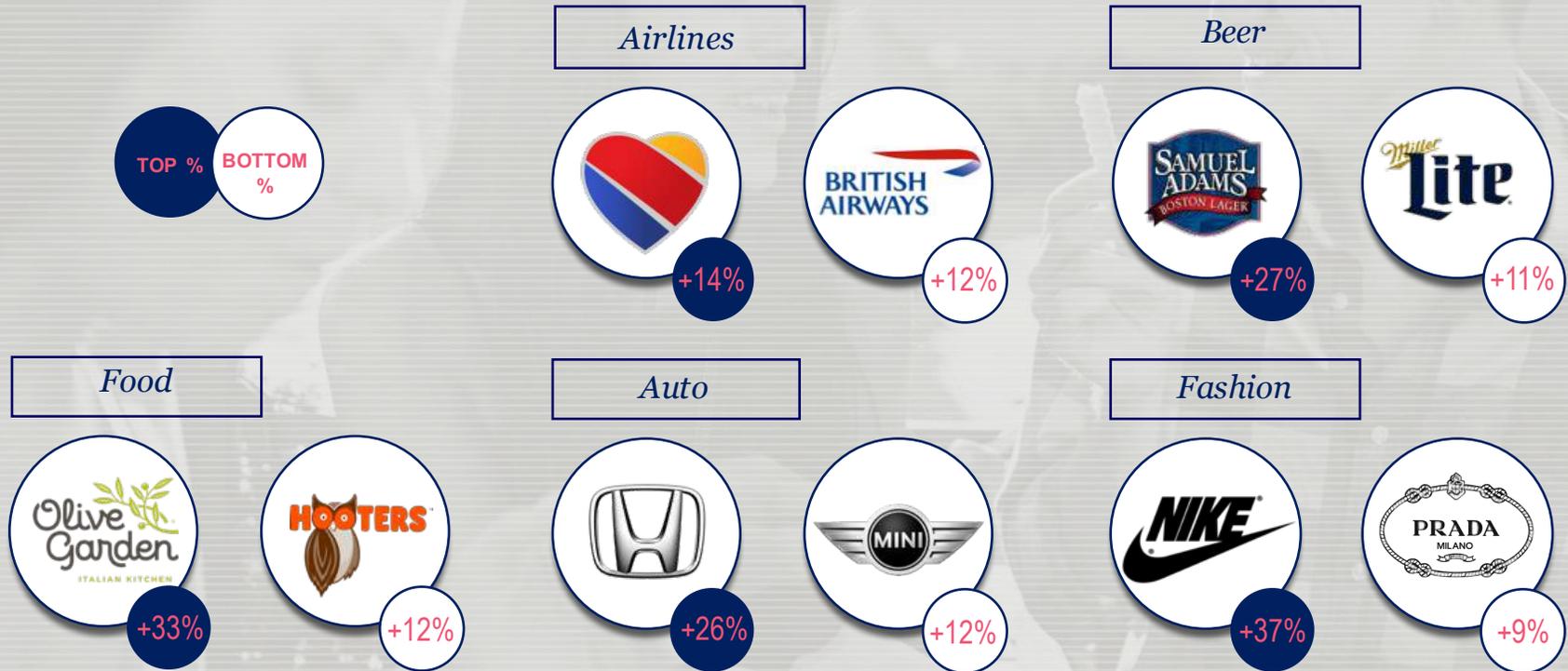
Our study shows that a high Social Currency score corresponds on average to a +19% greater willingness to pay a price premium. It is interesting to note the variation in price realization, category by category.

SOCIAL CURRENCY AND NICHE BRANDS

Airlines		Automobiles		Beer	
Emirates **172**	Virgin america **151**	Tesla **161**	Volvo **158**	Samuel Adams **124**	Blue Moon **124**
Vs		*Vs*		*Vs*	
Delta **116**	United **115**	Ford **112**	Dodge **110**	Budweiser **108**	Coors **108**
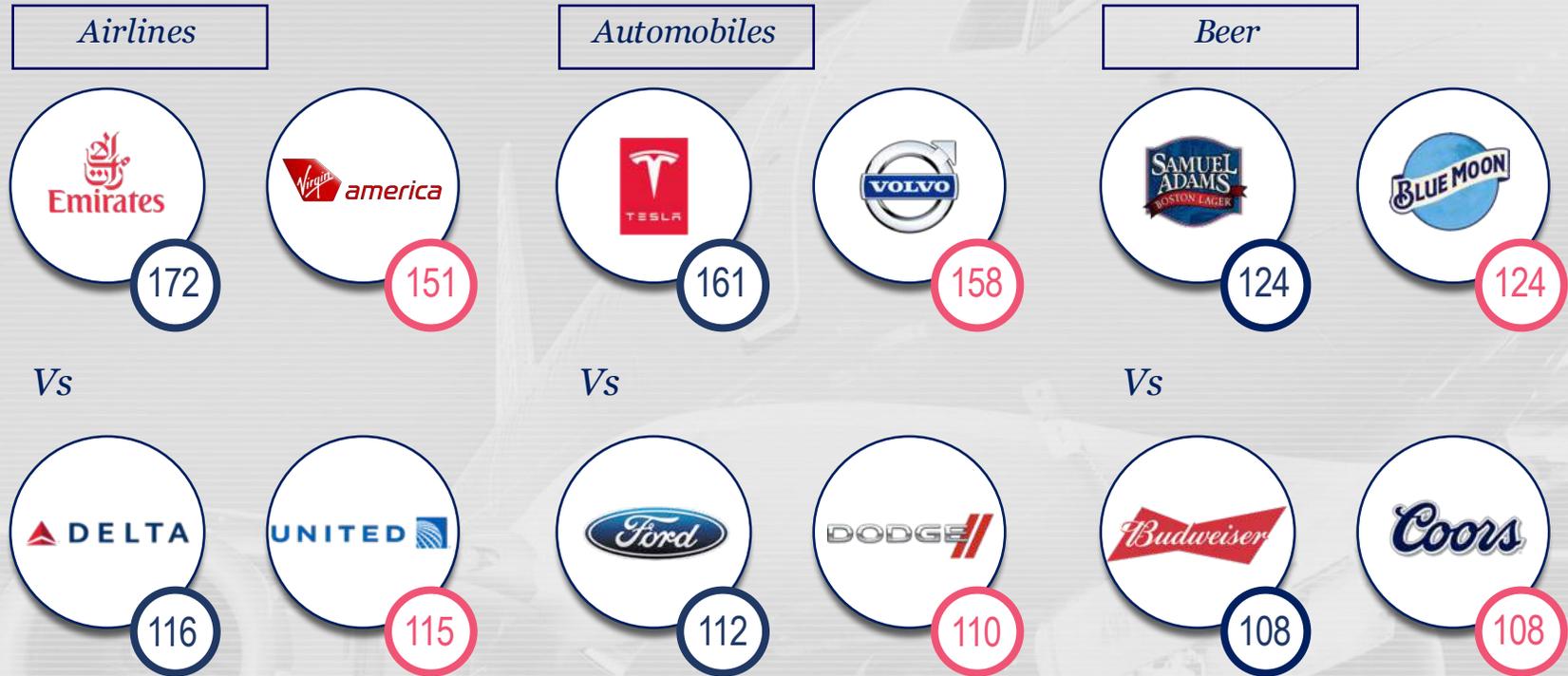
When we looked at brands' Social Currency among its current customers, it was interesting to note how niche or more targeted brands' scores rose to the top.

PERSONAL IDENTITY	Men	Women
Airlines	102	102
Automotive	101	99
Beer	97	93
Fashion	96	99
Food	104	107
All	100	100

SOCIAL IDENTITY	Men	Women
Airlines	103	105
Automotive	100	97
Beer	95	91
Fashion	95	97
Food	107	109
All	100	100
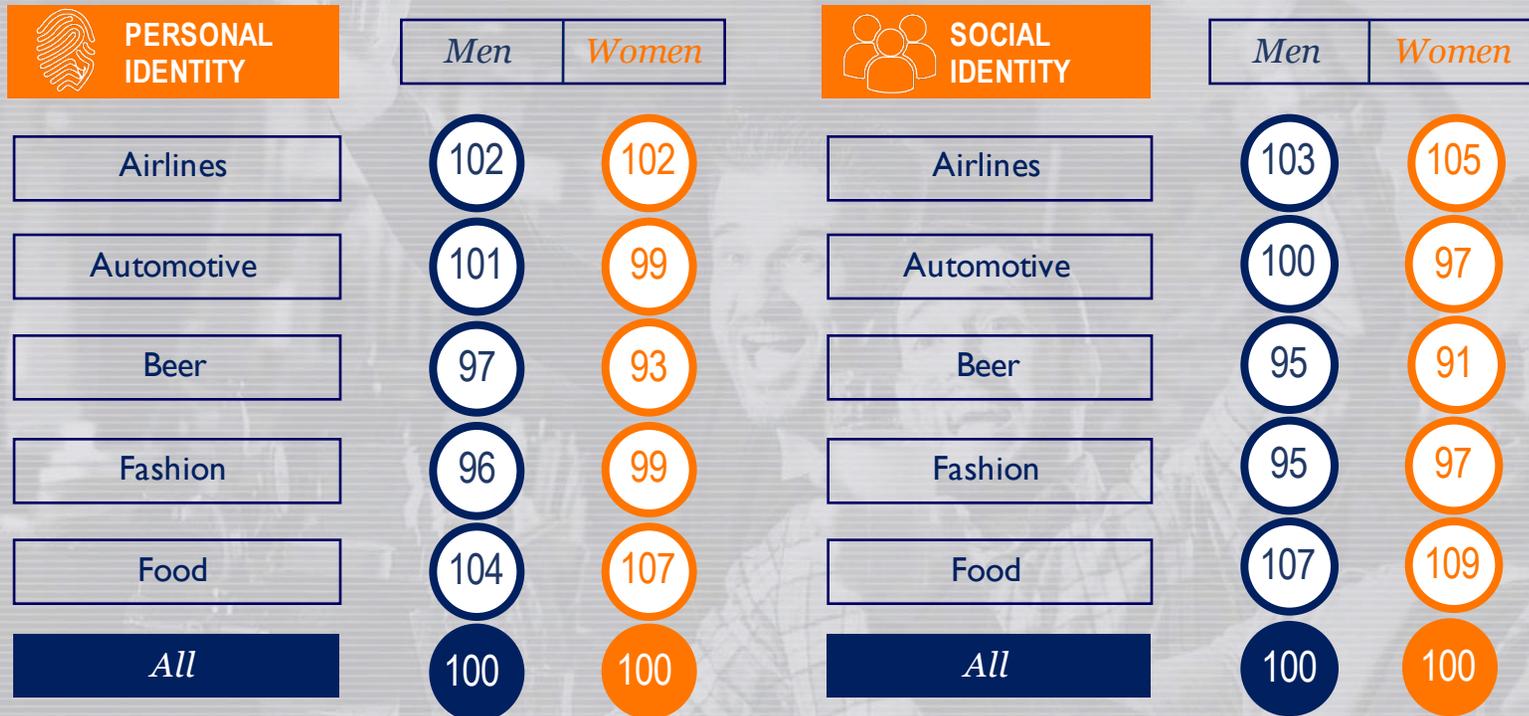
In the categories we studied, men contributed more to brands' Social Currency than women did with the exception of airlines and fashion. One hypothesis is that the brands included in this report were mass brands that men may identify more with than women, especially in categories such as fashion. Unsurprisingly, the biggest gender gap in Personal Identity and Social Identity lies in the beer industry.

Top 5 Automotive: Millennials
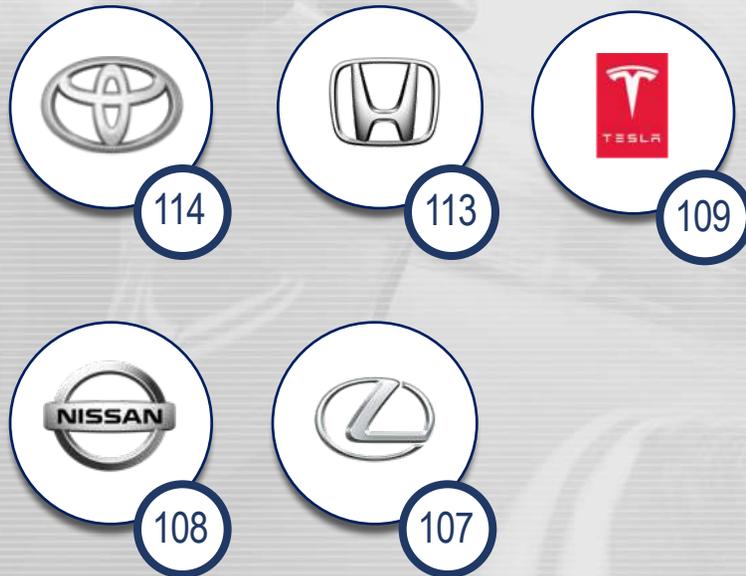
Top 5 Automotive: Boomers

Brands' Social Currency varies across generations. For example, the set of top automotive brands that engage Millennials come from more foreign brands whereas Boomers connect more with American brands.

"The only source of knowledge is experience."

———

Albert Einstein /Theoretical Physicist/

- In November of 2015, Virgin America launched the "Seat View" campaign where travelers could take a tour of their Airbus A320 before entering the aircraft in person

- In an industry where there is a low willingness to pay a price premium for a product (only 14%), this offered a moving pre-flight experience

- We believe that the engagement around the campaign allowed for an increase in the Social Currency dimension of *Utility*

RESULTS:

- **15%** lift in unique visitors to the Virgin website y.o.y

- **10** million in earned impressions

- **600,000** interactions with Google Street View

- By April 2016 the airline's traffic increased **11.7%** (13.5% higher than April 2015)
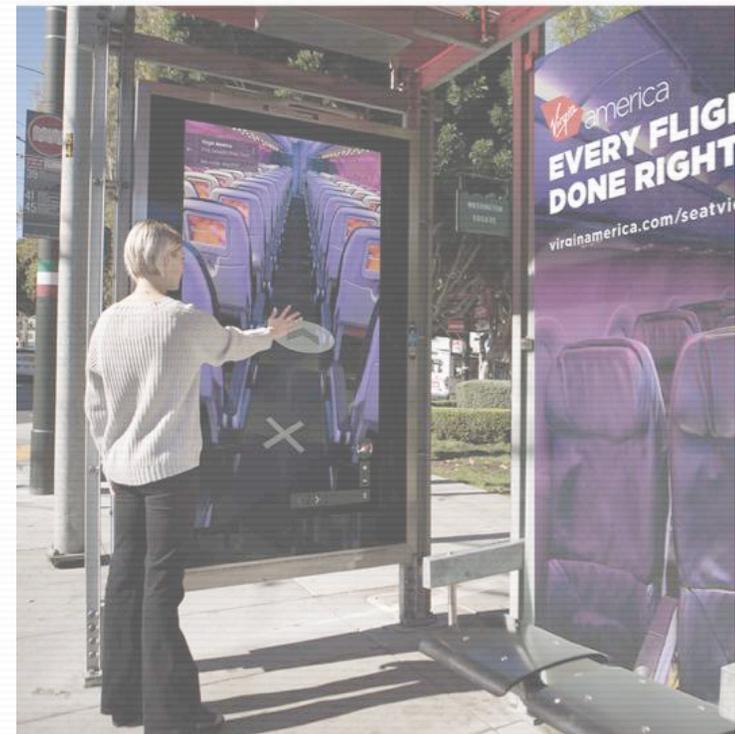
Wendy's

- Wendy's reintroduced their pretzel bacon cheeseburger in 2013 and turned to Twitter for inspiration

- Their customers were tweeting how much they loved the pretzel bacon cheeseburger so Wendy's created a campaign where performers took actual customers tweets and sang them in the form of a love ballad

- The comedic value of the content made it extremely shareable while also shining the spotlight on some of their customers, thereby increasing Social Currency on the *Social Identity*, *Conversation* and *Affiliation* dimensions

RESULTS:

- The most engaging and talked about campaign in Wendy's 44-year history

- **1.7** billion earned media impressions

- **7.5** million Facebook views

- **31%** increase in Wendy's stock price during the tenure of the campaign
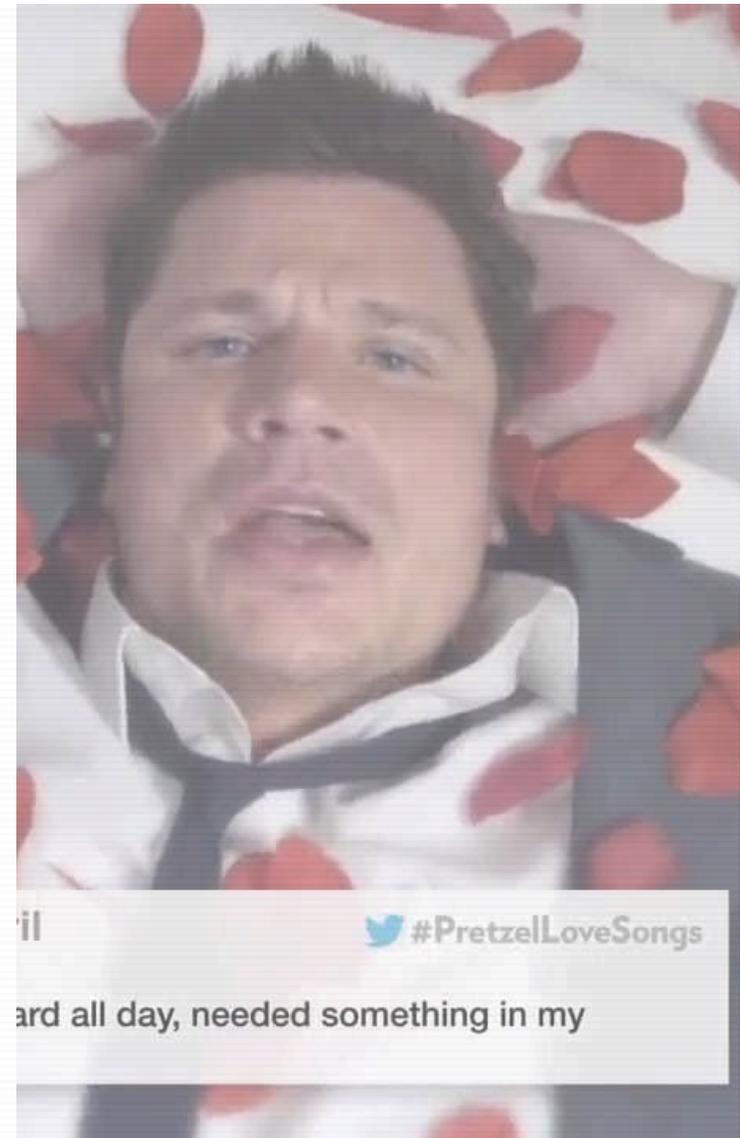
- To launch their new Adizero F50 soccer cleat, Adidas wanted to light up Boston and New York City with an event that would bring fans together

- A digital campaign alerted fans to the place and time at which a promotional light show took place, and once they were on location, integrated fan content such as their names and comments from Facebook in the light show

- In fashion, the *Affiliation* dimension scores the lowest, so this was a great way to help people form new social connections via Adidas

RESULTS:

- Reached **7.3** million users

- Drove **45,856** clicks

- **15,000** shares

- Adidas shares rose **2.2%** the day after the release of the Adizero

- In January of 2016, Sam Adams launched its Nitro Beer which changed the course of beer consumption

- This new line of beers was developed to encourage exploration of the brewer's art, in line with Sam Adam's mission of innovation and education

- Nitro Beer increased the brand's Social Currency by boosting its *Personal Identity* dimension. Drinking this beer says that you are innovative and thoughtful about the intricacies of your beer

RESULTS:

- One of only two nitro beer cans on the market. The other is Guinness.

- Fills the 'white space' of innovation in craft brewing, allowing Sam Adams to stand out among the 4,200 craft brewers in the U.S. today
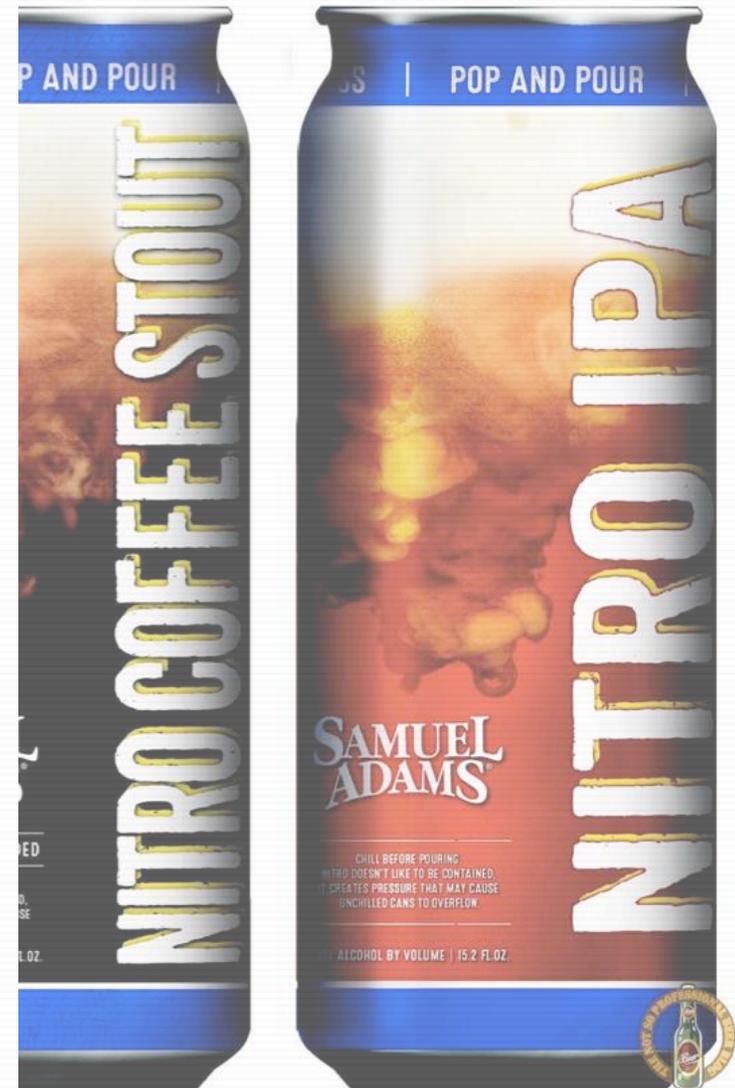
"Social Currency is about the new behaviors of customers in today's social, digital and mobile world.

Understanding these behaviors will help increase the success of any business transformation effort."

———

Erich Joachimsthaler, Ph.D /CEO and Founder, Vivaldi/

Digital transformation & customer centricity are about *consumers, not about the brand.*

ASSESS

EVALUATE

DEVELOP

EXECUTE

ASSESS CURRENT SOCIAL CURRENCY:

1. Audit performance on all dimensions

2. Understand linkage to current marketing activities

3. Define how customers use your brand to achieve their goals

EVALUATE AGAINST COMPETITION:

1. Map the landscape of behaviors that consumers engage in

2. Research performance vs. industry

3. Identify best in class players and derive learnings

Winning in today's demand landscape requires understanding consumers' activities and behaviors in order to anticipate their journey. By anticipating their journey brands can influence consumers' purchase criteria, innovate to solve their problems and build an advantage by accumulating customer data and harnessing network effect.

DEVELOP YOUR AGENDA FOR CHANGE:

1. Map the consumer journey

2. Define the business in terms of consumer outcomes or goals

3. Define the brand strategy objectives

4. Identify the dimensions of social currency that drive these objectives

EXECUTE CUSTOMER-CENTRICITY:

1. Work across functions in the organization to enable the customer's social and digital life and extend value creation beyond the usual marketing playbook

2. Adopt a customer-first lens to manage the organization and create a culture that is focused on building value for customers

3. Develop branding and marketing programs that help consumers in their journey

Marketers and business leaders must shift their focus from making bold branding promises to build value into every experience that customers have with the brand.

"The outcome of any serious research can only be to make two questions grow where only one grew before."

Thorstein Veblen /Economist and Sociologist/

April 2016

Self-funded, joint effort between CMB and Vivaldi, with a huge assist from Lucid Research.

18,000

Consumers 18 years and up, with sample weighted to reflect US Census age and gender distributions.

20 min

Online questionnaire, with consumers evaluating brands they were familiar with from the Airlines, Automotive, Beer, Fashion, or Restaurant Industries.

Airlines

Automotive

Beer

Fashion

Food

Node Analysis (size): Node Force - Arc Analysis: Mutual Information
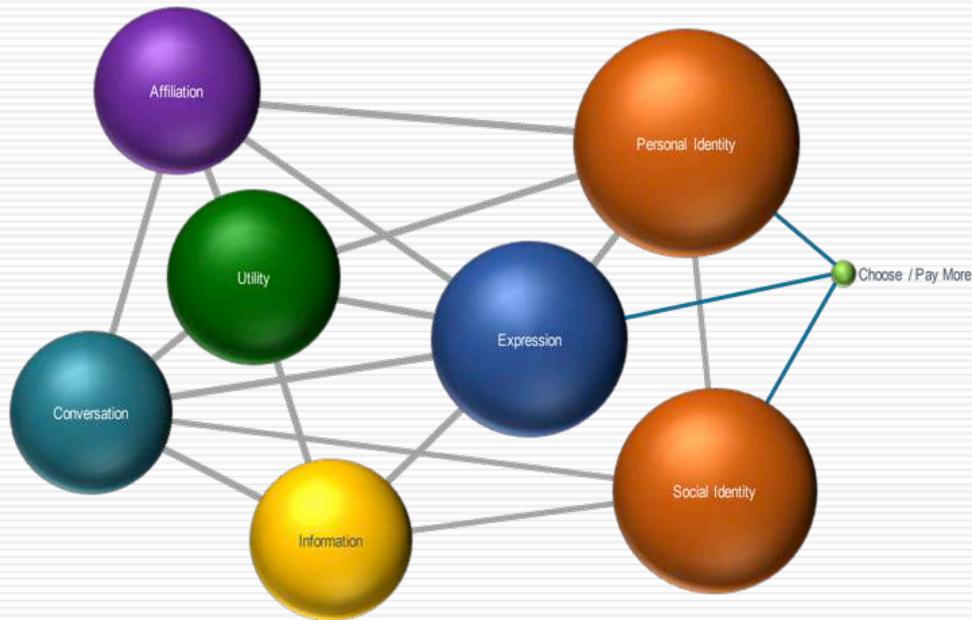
We used Bayesian Networks to help understand the often-complex relationships between the Social Currency dimensions and key brand perception outcomes. Bayes Networks utilize mutual information across all variables in a network and are the best tool we have to help understand causality.

Generally, we saw that:

- The Personal Identity and Social Identity dimensions <u>always</u> had a direct relationship to all of the various outcomes we modeled.

- Other dimensions <u>usually</u> had an indirect relationship to the outcomes, mediated through Personal and/or Social Identity.

The final Social Currency factor compositions and the scores themselves are the product of 6 weeks of rigorous analysis and multiple iterations of modeling.

For example, the regression model results below show Social Currency's strong ability to predict higher level consumer perceptions which are known to correlate with business financial success. The R^2 statistics quantifies the total amount of variance in the dependent variable that is explained by the independent variables in the model.

SHAPLEY IMPORTANCE FOR MEAN OF CHOOSE OVER OTHERS/PAY MORE COMBINED DV

Shapley Importance (%)	Airlines	Automotive	Beer	Fashion	Food	Total
SC Personal Identity Factor	17.4%	20.3%	20.7%	21.2%	24.6%	21.1%
SC Social Identity Factor	18.9%	17.9%	18.4%	18.5%	18.4%	18.8%
SC Utility Factor	12.6%	11.8%	12.2%	12.4%	10.9%	11.9%
SC Affiliation Factor	11.1%	10.6%	11.7%	10.2%	9.6%	10.6%
SC Expression Factor	13.2%	14.1%	14.1%	12.9%	15.4%	14.0%
SC Conversation Factor	13.9%	12.7%	11.4%	12.6%	10.8%	12.1%
SC Information Factor	12.8%	12.6%	11.5%	12.2%	10.2%	11.7%
r-Square	0.576	0.608	0.649	0.613	0.585	0.607

AUTOMOTIVE	STANDARDIZED COEFFICIENTS
SC PERSONAL IDENTITY FACTOR	0.336
Brand is worth paying more for	0.238
SC SOCIAL IDENTITY FACTOR	0.152
SC EXPRESSION FACTOR	0.145
Brand is a good deal in terms of cost/price	0.115
SC UTILITY FACTOR	-0.102
Brand is socially responsible	-0.074
Brand is exciting	0.070
Brand rewards its customers for their loyalty	-0.058
Brand is useful	0.052
Brand is easy, convenient (e.g., easy to use)	0.041
Brand offers a wide selection :	0.037
Brand is arrogant	-0.037
MODEL R^2	0.680

Many models also included traditional/functional brand drivers like perceptions of price, selection and convenience.

Generally, we saw that including these measures improve the model, but only incrementally; e.g., in the Automotive category shown, model R^2 improves from .61 to .68.

Our conclusion: while traditional brand drivers are important and do improve help our models, the Social Currency dimensions are excellent predictors on their own, and a new lens through which brands can find high-impact improvement opportunities.

| **ACKNOWLEDGEMENTS**

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Vivaldi unlocks innovation and growth opportunities for brands and businesses in the context of today's digitally connected world.

We are known for:

- Identifying growth opportunities
- Building strong brands
- Creating bold innovation
- Leading internal transformation
- Designing powerful brand experiences

Vivaldi's strategic guidance helps brand and business leaders create breakthrough yet actionable strategies.

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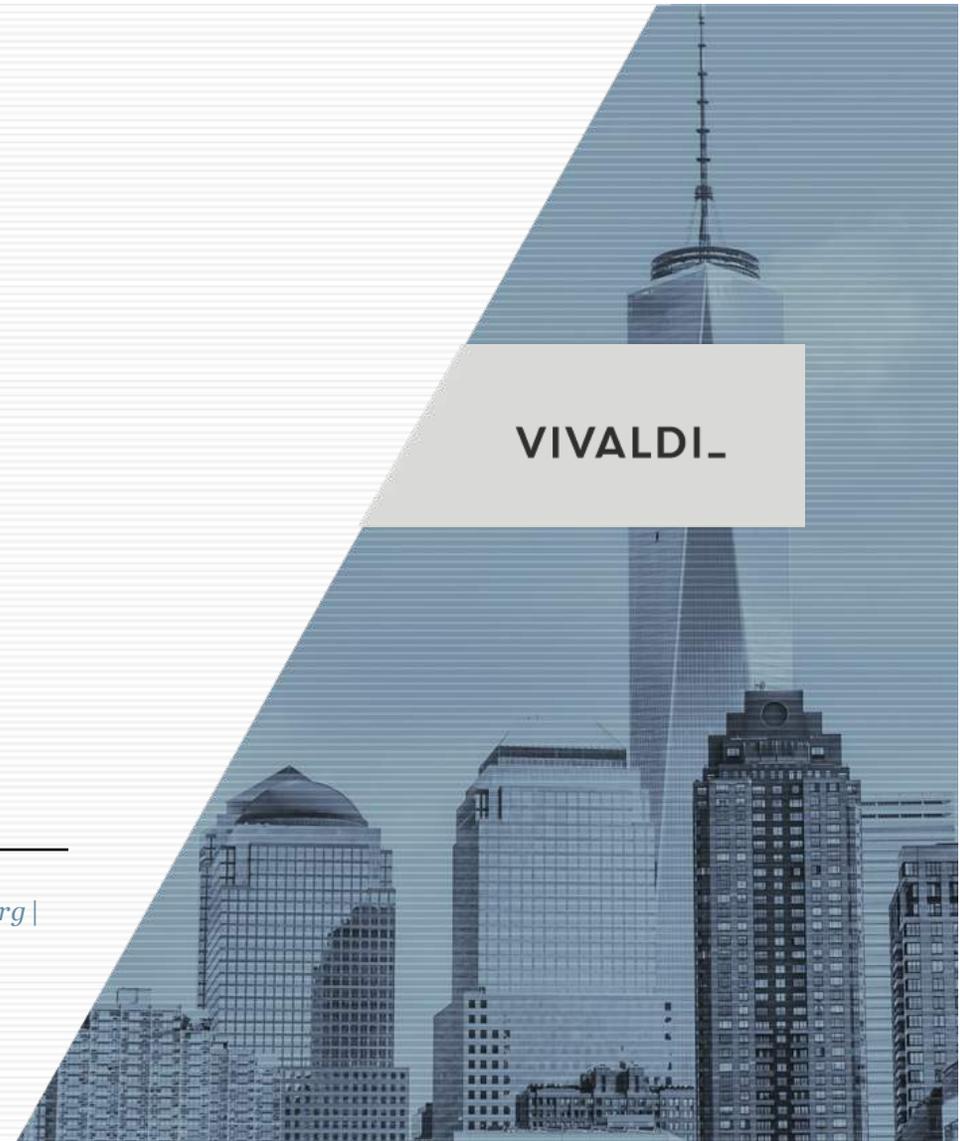
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- Advanced analytical techniques & methods
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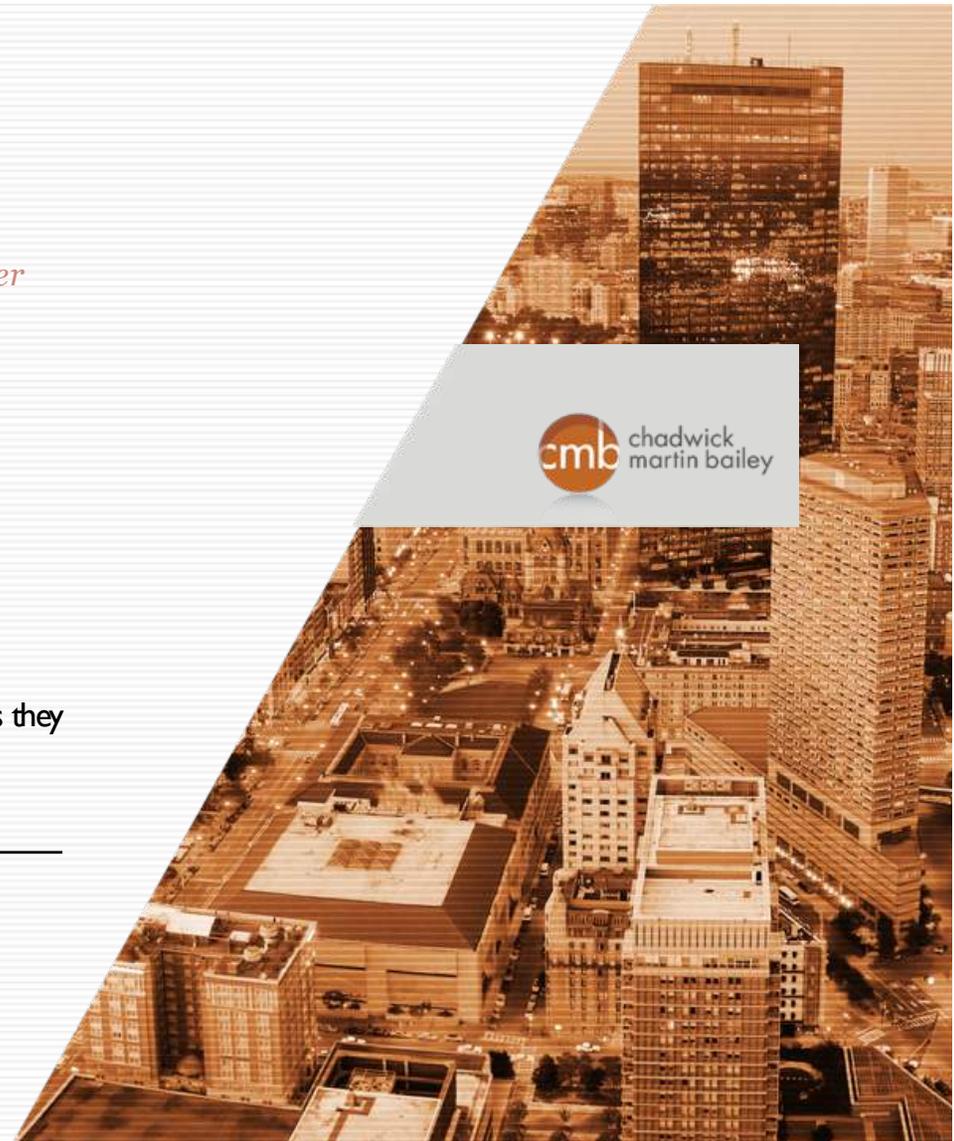
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Thank You!