BEYOND THE PALE

Searching for strategically actionable insight

Glen Drummond, Chief Innovation Officer

Glen Drummond asserts that cognitive science offers a powerful lens through which to view some of the most trenchant issues in innovation, customer experience design and the threat of industry disruption. As a consequence, the current definition of "best practice" in marketing segmentation needs to evolve, he argues.

QUARRY

CURVE JUMP™

Picture a Viking. Seriously. Take your mind back to the dark ages of Northern Europe to, say, around 1000 AD. Imagine the Viking with all the vivid detail you can muster. Have you got that image solidly formed in your mind?

Now, let's guess: did you picture a rugged, adult-male warrior? Was there a sword or spear or shield or helmet involved?

Of course, you might have pictured an elderly woman or a young mother. You might have pictured a baby or a pre-teen. You might even have pictured a dairy farmer, a fisherman, a weaver or a merchant. But you probably didn't.

What you've just revealed to yourself is what cognitive linguist George Lakoff calls a "prototype" effect.[1] Certainly, there were elderly women, infants, young mothers, pre-teens, dairy farmers etc. in Viking societies. But in the category we know as "Vikings," there is an idealized cognitive model or "prototype" that seems to us most representative of the category "Viking."[2]

You might be asking yourself at this point, "What's this got to do with my business?" Well, the clear indication of contemporary cognitive science is that this phenomenon is not in any way restricted to the way we view Vikings. This cognitive process of categories and idealized cognitive models is apparently at work constantly, setting the context for our reasoning, our decisions and our actions.

So, if "Viking" is a category with prototype effects, it follows logically that so is "customer," as is "customer segment." And that means the following: Everyday, in corporations all around the world, people are using idealized cognitive models to represent their customers to themselves and their colleagues. So how do you suppose this might affect decisions around branding? Around customer experience design? Around innovation?

These questions should prompt business leaders to reflect on how customer knowledge is currently created, structured and shared. One outcome might be an evolution of methodology for strategic customer segmentation, something we'll address in a moment. But for now, let's look at one often-overlooked issue that might cause worry among thoughtful executives in market-leading firms.

Shadow segments
A new window on the innovator's dilemma

As our thought experiment hints (and as cognitive scientists have gone to some lengths to verify), categories are not merely an outcome of perception or an unmediated response to an objective "reality." Rather, they are artifacts of imagination and culture that profoundly shape what we think about reality.

From a strategic standpoint, we should suspect that if a particular prototype for "customer" is a strong exemplar of the category in our minds, then it is also casting a shadow, obscuring what cognition manages as weaker exemplars of the category. Those weaker exemplars—the dairy-farming female Viking, let's say—are hidden in the shadows of prototype effects. They are "shadow segments."

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[1] Lakoff's work on categories contradicts traditional notions of scientific classification: "People have many ways of making sense of things—and taxonomies of all sorts abound. Yet the idea that there is a single right taxonomy of natural things is remarkably persistent." (Lakoff, G. (2008-08-08). *Women, Fire, and Dangerous Things* (p. 119). University of Chicago Press. Kindle Edition.) We observe that naïve practitioners and users of customer segmentation have assumed this traditional notion of classification and this unquestioned assumption is a root cause of segmentations that fail to support competitive differentiation.

[2] Given the obvious hazards of being a seafaring warrior, objectively speaking a Viking of the dark ages would more likely have been a woman than a man. So our prototype is, statistically speaking, in the minority. But this prototype casts a shadow that obscures the fact. Is it any wonder business case projections are mostly wrong?

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PERSPECTIVE IN BRIEF:
In search of strategically actionable insight

The problem
Shortfalls in both new product innovation and value creation through customer-experience differentiation are widespread. These issues topple market-leading incumbents.

Why this happens
Cognitive science reveals that we are inherently biased towards "idealized cognitive models." Such broad-stroke generalizations of our customers can obscure certain key customer segments. These unseen "shadow segments" are a hotbed opportunity for innovation, but remain invisible because of current customer segmentation methodologies.

The solution
We offer a recipe for strategic segmentation that anticipates the influence of idealized cognitive models. This approach hinges on identifying tensions in customer motivations. The result is a distinct view of customers that reveals their unique problems and creates the opportunity for innovative product and customer-experience solutions.

This may all seem academic until you place it in the context of Clay Christensen's theory of disruptive innovation. Who are the customers who create an early beachhead and safe haven for a market disruptor? It's precisely those customers who are obscured by the shadow cast by the prototype customer of an incumbent industry leader.[3] This, in our view, builds upon Christensen's theory—adding a new explanation of cause, rooted in human cognition, to a strategic dysfunction that regularly topples market leaders.

Now, knowing about a problem (and even what causes it) and dealing with the problem are two different things. So, following this line of thinking we are now prepared to ask: If all customer segmentation is categorization, then what is the difference between segmentation and strategic segmentation, and how do you develop insight that is strategically actionable? From here, we'll tackle these questions in sequence and share our view on how you can develop insight that unlocks the opportunity for innovation in your organization.

Beyond the pale

The distinction between segmentation and strategic segmentation can be summarized like this: segmentation is a categorization of differences between customers. Strategic segmentation is a categorization of *differences that make a difference from a strategic perspective*. But how do you recognize these?

To develop the distinction, let's return briefly to the Vikings.

The origin of the phrase "beyond the pale" might come as a surprise to you. During the dark ages, there was a Viking settlement in the place we know today as Dublin, Ireland. The Vikings protected their families and businesses from the people in the surrounding landscape by means of a tall surrounding wall. This wall was known as The Pale. For the Vikings, the uncivilized behavior of the uncivilized people in the surrounding landscape was behavior that was "beyond the pale." That the Vikings viewed others as uncivilized may seem ironic. But evidently, the Vikings had their own prototypes and categories too!

> **Strategic segmentation is a categorization of differences that make a difference from a strategic perspective.**

QUARRY

From strategically actionable insight into action

Market leaders find themselves moving from the proverbial rock to a hard place. Rock side, we all know that almost any product's killer feature can be quickly duplicated and neutralized, even in the most technologically advanced categories, just at a time when global markets are narrowing the advantage of patent protection. So it's understandable that leading organizations are shifting their emphasis to the area of customer-experience design.

Yet in the direction of the hard place, it's these same organizations who are coming to the realization that, in their own words, "We are data rich and insight poor."

So where is the opportunity for real differentiation? This is precisely the reason for strategically actionable insight: to inform the creation of resonant customer experiences. Developing a strategically actionable view of your customers is synonymous with gaining a competitively distinct understanding of people. As we shift our perspective from products and technology to people and experiences, strategically actionable insight becomes the foundation for creating relevant, resonant engagements between your customers and your brand.

This irony and this inside-the-pale versus beyond-the-pale categorization provide an illuminating insight into how we view markets and how we draw their boundaries. Within the conversation shared by members of an industry or enterprise, value adheres to certain ideas, benefits and features. So, for example, in the financial services sector, "advice" is seen as a universally good and valuable thing. In telecommunications, "connection" is seen the same way. This is, put simply, part of a shared industry worldview.

Now apply the same thinking to your customers. Some customers might indeed be your most loyal, profitable, high volume and favorite ones. Likely, they are also the ones who self-select to participate in your marketing research efforts. They are, in short, your idealized models of a customer. Cognitively speaking, they are akin to your "Viking."

But what if—within the same landscape, but beyond the pale—others see the world differently? What if there are potential customers who, for a variety of reasons, do not share a worldview that aligns with your industry? If that should be the case, then the products, customer experiences, brand positioning and messaging of your firm and your competitors

...the potential to disrupt, rather than be disrupted, may have quite a bit to do with the structure of your customer insight.

too will be weakly aligned with these people. Who then will be the most likely group to jump to a substitute solution when one comes along to meet their needs?

For example, consider the way Charles Schwab disrupted the financial services business by launching what was initially an "advice-free" online brokerage. This achievement has been widely discussed as a technology disruption,[4] but it is also an example of acting on a strategic segmentation insight. For a substantial group of investors, advice is, at best, a mixed bag. Schwab targeted customers beyond the pale and disrupted a whole industry. This example hints at the possibility that the potential to disrupt, rather than be disrupted, may have quite a bit to do with the structure of your customer insight.

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[4] Or as Philip Evans would describe it in *Blown to Bits*, a "deconstruction."

Earlier we referenced Clay Christensen, who points out that adoption of disruptive innovations usually begins at the margins of an industry—not at its center. In this context Christensen asks his famous question: "Can great companies fail by listening to customers?" And he answers in the affirmative: "Yes they can." To Christensen's question, we now offer a corollary: "Can great companies prevent failing by identifying the fallacy of their idealized cognitive models of the customer, and by discovering with fresh eyes the people who inhabit regions of the market beyond the pale?" Not only do we believe this is so, we think it becomes increasingly important in the context of the experiential shift in competitive differen-tiation. We'll now explore why, and offer a critique and some practical guidance around segmentation methodology in response to this widely experienced challenge.

A customer insight is not strategically actionable if your competitor has discerned it and thus has the capacity to neutralize the advantage that might be gained from it.

Challenging a notion of "best practice"

For brand and business strategists, a methodology widely described as "best practice" for customer segmentation reveals a philosophical confusion—a view of customer segments as something objectively real and independent of the observer, as opposed to segments as cognitive categories with prototype effects.

The best practice associated with the former view involves the aggregation of demographic, attitudinal and behavioral data, gathered through a quantitative survey, followed by cluster analysis of the full data set.

This may feel like science but it is, in almost every case we can imagine, an error. A customer insight is not strategically actionable if your competitor has discerned it and thus has the capacity to neutralize the advantage that might be gained from it. The fact is your data collection and clustering algorithm may be very similar to your competitors'. And, thus, your segmen-tation may almost be identical to theirs. Plus, while these segments may seem real and objective, they do not actually exist in nature. Segments are, and need to be seen as, cognitive tools used to serve a particular kind of thinking.[5]

So, how to proceed if best practice isn't actually what's best? We believe the solution lies in discovering tensions in motivations.

Tensions are more important than motivations

It's widely regarded that the qualitative research that comes early in the segmentation journey should focus on customer motivations. We agree—but there is a nuance. As we've said, an insight is not actionable if your competitor has already discovered it and neutralized the advantage that can be gained by having it.

While motivations are relatively easy to spot, a cluster of motivations in tension is far less so. To uncover tensions in motivations requires more subtle detection and interpretation. But such a discovery is worth the effort, because a tension in motivations is a customer problem—and newly discovered customer problems are the sort of thing that innovators and entrepreneurs can act upon.

So, where can one look for a framework of customer differences that are strategically actionable?

If we can find within the total industry landscape some strategically relevant tension in customer motivations, then we can locate clusters of customers who adopt different stances towards that tension. The tension—as with the conflict

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over advice in financial services—may be less evident among our favorite customers who think a lot like we do. The tension is likely to be more easily detected among customers who are part of the customer landscape, but who live beyond the pale when it comes to assumptions about what really matters in our industry.

What happens when we discover this pattern? Customers suddenly appear out of the shadows of our previous categorization. And customer experience design can be targeted around insights into problems that customers perceive as compromises imposed on them by the entire industry. That's precisely the kind of thinking that drives innovation.

A CURVE JUMP STORY:
Shadow segments discovered

The context: A dominant industry leader experiencing persistent market erosion in a portion of its product portfolio.

The actionable insight: Smaller-scale customers were not scaled-down versions of larger customers. Some shared the values of large customers, some oriented themselves in deliberate opposition to those values and some were in the continuum between these poles.

The action that changed the game: An end-to-end customer experience redesign tailored to previously invisible shadow segments produced turnarounds in customer experience, brand perception and sales.

A CURVE JUMP STORY:
A web-driven leapfrog on brand experience

The context: Financial services industry, diversified life insurance organization. Commodified products, fragmented industry share, limited brand differentiation.

The triggering event: A new website pursuing brand differentiation on the basis of customer experience.

The actionable insight: The *need* for a relationship with an advisor was not uniformly correlated with the *desire* for a relationship with an advisor. A pattern of tensions in motivation was discovered.

The action that changed the game: A new advisor engagement model was created to provide an unprecedented feeling of control to prospective customers. The web experience amplified this idea. The result was strong market pick-up and the leveraging of this web experience as the basis for a national marketing campaign that differentiated the brand.

Summing it up

In this article we've explored a distinction between customer insight and *strategically actionable* customer insight. What makes insight strategically actionable? In our view, the discovery of a pattern of differences in the orientation customers adopt to a tension of motivations strategically relevant to an industry.

Why is the distinction between insight and strategically actionable insight growing in importance? Because the basis for sustainable competitive advantage on the basis of product advantages or even patents is narrowing, pushing organizations to create value through differentiated customer experiences.

What have been important obstacles to achieving strategically actionable insight (and, by extension, to achieving transformative innovations)? As we see it, the current model of best practices in strategic segmentation suffers from a philosophical attraction to objectivity that turns out, in the end, to be both vain and antagonistic to the achievement of a genuinely strategic perspective.

How can this issue be resolved? Focus on tensions in motivation and look beyond your own prototype customers in order to find a strategic perspective. Personify your findings in a structure that contrasts customers on the basis of the stance they adopt towards that tension.

If that's a little overwhelming, just remember how *you* think about Vikings and the value of looking into the shadows.

About Quarry Curve Jump

Curve Jump™ is the innovation insight practice at Quarry, an agency with four decades of expertise in marketing highly engineered goods, services and solutions, focusing on brand transformation.

Curve Jump designs, fields, interprets and articulates strategic segmentation insight, tuning it to the strategic environment and ambitions of its clients. It further supports these clients with solutions for innovative branding and customer-experience design strategies.

Glen Drummond is Chief Innovation Officer at Quarry.
As part of the Curve Jump practice, Glen helps clients with strategic segmentation and customer insight programs that fuel innovation and customer experience initiatives. Glen also lectures at Wilfrid Laurier University in the School of Business & Economics.

gdrummond@quarry.com
519.664.2999
ca.linkedin.com/in/glendrummond
curvejump.quarry.com

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