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MOBILE PAYMENTS: THE IMPORTANCE OF TRUST, FAMILIARITY AND THE NEED FOR CO-OPERATION

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Editorial



Welcome to the second international edition of TechTalk. Our cover story, supported by brand new research across nine markets, focuses on mobile payments, a technology that is at last gaining real momentum. Specifically, we look at the level of trust consumers place in the different

types of organisations executing mobile money transactions and assess what it means for the key players as they prepare for commercial roll-out.

Our special feature comes courtesy of the GfK Marketing Intelligence Review. Director at the Center for Global Innovation, Gerard J. Tellis (et al), asks whether best quality products can

win out in technology markets dominated by incumbants. We also take a look at new techniques in the research world such as co-creation and digital solutions. As always, if you have any comments or would like additional information about GfK, including anything relating to the articles covered in this edition, then please do get in touch.

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MOBILE PAYMENTS: THE IMPORTANCE OF TRUST, FAMILIARITY AND THE NEED FOR CO-OPERATION

BY RYAN GARNER

Recent research conducted by GfK shows the appeal of close proximity mobile payment services varies greatly across different markets and target groups. Mobile payments are seen to have two core consumer benefits: convenience and wider ecosystem integration. Whilst the convenience of quickly paying for small items in store is a key benefit, the full potential of NFC will be realised when mobile payments are integrated with other smartphone services, such as those based on a user's location. However, with this level of service development, and potential security risks, what will drive consumer adoption of mobile payment services?

Overall, at a global level, trust and familiarity drive preference of mobile payment providers. Each brand category brings different benefits to the world of mobile payments. Financial brands add a layer of trust that mobile brands have yet to nurture in the financial world. Network carriers have a well-rehearsed customer support network and the connectivity infrastructure to make mobile payments fast, reliable and secure. And for mobile manufacturers and OS providers, it's the integration of physical payments with the virtual world of apps and services.

Creating a service consumers trust ultimately means leveraging the trust placed in financial brands, but it is also vital to have a presence in the mobile sector. Those brands that can evoke the trust of a financial brand and familiarity of a mobile brand will be in the best position to drive adoption of their mobile payments service. Therefore, the co-operation of different sector specialities is the quickest route to link the virtual and commercial world with the physical to exploit the full benefits of NFC technology and mobile payment services.

Background: The Plethora of Choice

Near Field Communications (NFC), the technology that supports close proximity mobile payment services, has been around for many years, but service provision is only just beginning to emerge as a reality for consumers in most countries. Every year since 2006 there have been reports that have forecast increasing volumes of NFC enabled mobile handset shipments. Each time these reports are revised downwards and NFC enabled mobile phones and services have failed to materialise. One of the reasons for this delay to market has been the critical question: 'Who owns the relationship with the customer?'

The race to deliver mobile payments to a mass market consumer audience is an important one with many different brands from different industries involved. From financial corporations to telecom companies, brand and sector are carefully and strategically positioning themselves to maximise their opportunities for success.

For financial institutions, a move into mobile is a critical evolutionary step. It will modernise their service offering and refresh their brand image after much negativity during the recent financial crisis. Mobile network operators, on the other hand, are eager to enter this fledgling sector to diversify their revenue streams from their core business of voice, text and data. Smartphone operating system (OS) providers are also keen to be involved, as NFC represents an important data source, bringing together online and offline purchasing behaviour, which will enhance the value of their ecosystem to marketers. Finally, mobile device manufacturers wish to leverage their scale and develop a service offering that strengthens their relationship with the end user.

As a result, many brands are setting off on a new course yet to be defined or fully understood. They are forming new partnerships along the way and competing against brands they have never faced before. Whilst service propositions are still being crafted and alliances forged, GfK is interested in the consumer's view of this brave new world of personal finance. Following GfK's experience in this field, it is evident that for some consumers the prospect of adding payment functionality to their smartphone is an exciting convenience. However, there are drawbacks that create barriers and caution among consumers - most obviously the prospect of security and personal data theft.

This article sets out to measure how sceptical consumers really are across a selection of key countries around the world. Although most of these countries are on the verge of having the option to use mobile payments for the first time, we have also included South Korea which has been using mobile payments for many years now. Ideally we would have preferred to include Japan in this research, as it is the benchmark country when it comes to mobile payments. However, given the recent tragedies, consumer research was not feasible so we included South Korea instead.

Consumers will be presented with a plethora of mobile payment services over the next 12 months. Thus, the research conducted has measured levels of trust, consideration and preference within brand and industry categories. The report will identify overall drivers of brand and category preference and, more specifically, among smartphone owners and early adopters.

Consumer Readiness for Mobile Payments

Research conducted by GfK in April 2011 tested the appeal of mobile payment services in nine markets. Of these, South Korea was the only nation that offered established mobile payment services to the consumer market. Consumer appeal for mobile payment services varies across the nine markets, which, broadly speaking, fall into two categories: countries with established financial payment infrastructures, and countries whose financial infrastructure is young and still developing.

The South Korean market has benefitted enormously from government-backed investment and reforms in the technological and financial infrastructure of the country. This has meant that the telecommunications and financial network is highly advanced, paving the way for mobile payment services as early as 2002. Although China and Brazil are very different economies

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to South Korea, they share with it the opportunity to invest in new technological and financial infrastructures, rather than evolve legacy systems. China is currently laying huge fibre optic networks and investing heavily in internet protocol (IP) services and the rolling out of 3G networks to their vast installed base of mobile phone users. In terms of mobile payments, several large scale trials are being run by major mobile network operators – although, despite much excitement, nothing has yet been launched. Given the speed at which China is developing, it is little wonder Chinese consumers find mobile payment services the most appealing (82%) of all the countries studied. Some of the key benefits to consumers of mobile payments are convenience, speed and simplicity: the standardisation and widespread acceptance of this kind of payment process among a population that relies heavily on mobile would only heighten its appeal in China.

Similar to China is Brazil, the world's fifth largest country in both land and population. For consumers in Brazil, mobile is a hugely important channel for day-to-day information and tasks. As such an upgraded national payment system supported by mobile phones is a highly appealing prospect, which was reflected in this research (73%).

In more developed markets like the US and Europe, financial systems have been established for much longer. The process of paying for products in store is already a fairly convenient one, with most shops accepting credit and debit cards. The introduction of mobile payment services in these markets therefore receives a more mixed response from consumers. The appeal of mobile payment services is lower than developing markets, with circa one in two people finding the prospect of using mobile payments appealing.

The one country that not only has a well-established financial and telecommunications system but also high levels of appeal is Spain. There is a lot of momentum in Spain for mobile payments, with consumers having quickly adopted smartphones and Spanish banks having trialled mobile payments for some time with much publicity. In addition, Spain's leading mobile network carriers have signed a NFC collaboration deal that aims to unify the consumer experience and simplify NFC services.

There are, however, real signs of promise for the future, when we look at the aggregated appeal score, on both global (62%)

and country level. In particular, certain key groups show higher levels of appeal for mobile payments, offering fertile ground for future take up. These include smartphone owners (72%), younger consumers aged 16-24 (75%) and innovators/early adopters (74%).

A significant universal finding from the research is that trust is the biggest driver of service preference and is most important at driving adoption of mobile payments. With so many new brands entering this market, developing this trust is essential, especially for many undecided consumers in developed markets whose current system is working well.

Adoption Funnel: Trust, Consideration and Preference

With trust being a key driver of adoption, GfK's research measured the level of trust consumers placed in high profile brands in the financial, mobile and telecommunications industries. The data visualisation seen on the next two pages, shows global consumer trust (blue), consideration (purple) and preference (green) scores for each industry category. Each category is ranked from left to right in order of consumer share of preference. Within the trust, consideration and preference scores, there are some interesting variations between the different categories of consumers, which have been broken out within each bar.

The research data shows that the financial institutions brand category has the most trust, consideration and preference among consumers. Furthermore, the disparity between trust and consideration, and between consideration and preference, is lower than that experienced by mobile and telecommunications brands.

Mobile network carriers have the highest levels of trust, consideration and preference out of all the mobile brands, but they are still quite far behind financial brands. As we might expect, the data in Figure 2 shows significant increases in all three metrics for innovators and early adopters, whereas the late majority and laggards show decreases. The uplift in trust among innovators for mobile OS providers in particular is considerable, going from 18% global average to 34% among this group.

When we drill down into the data further we find that, of the financial brands, banks have the highest levels of trust, consideration and preference. Even after the dark cloud of the recent financial crisis, banks (in this case, high street banks)

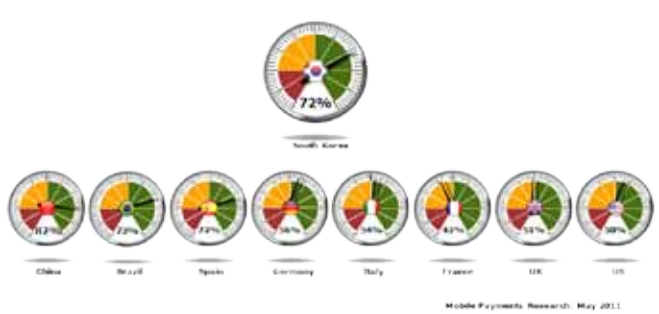


Figure one: Shows the varying appeal scores for mobile payments across the countries we tested

still seem to evoke a high degree of trust. We cross referenced this finding against consumer satisfaction scores for current accounts on GfK's definitive Financial Research Survey (FRS) [1]. The data in this study has remained stable throughout the recession, fluctuating no more than three percentage points since January 2007, with a satisfaction score of 65.7% in March 2011. Consumers still trust banks to process payments and reliably manage their personal finances. With this in mind, it is no surprise that consumers trust and prefer financial institutions most with processing their payments on mobile phones, which seems a natural progression.

The research data shows that whilst mobile and telecommunication brands have significantly lower trust, they can improve this by partnering with a trusted financial institution. Network carriers moving to partner with banks and credit card providers create an uplift in perceived levels of trust among consumers. With network carriers offering mobile payment services alone, only 24% of consumers would feel assured using their service. However, a service in co-operation with a bank sees this rise to 32%.

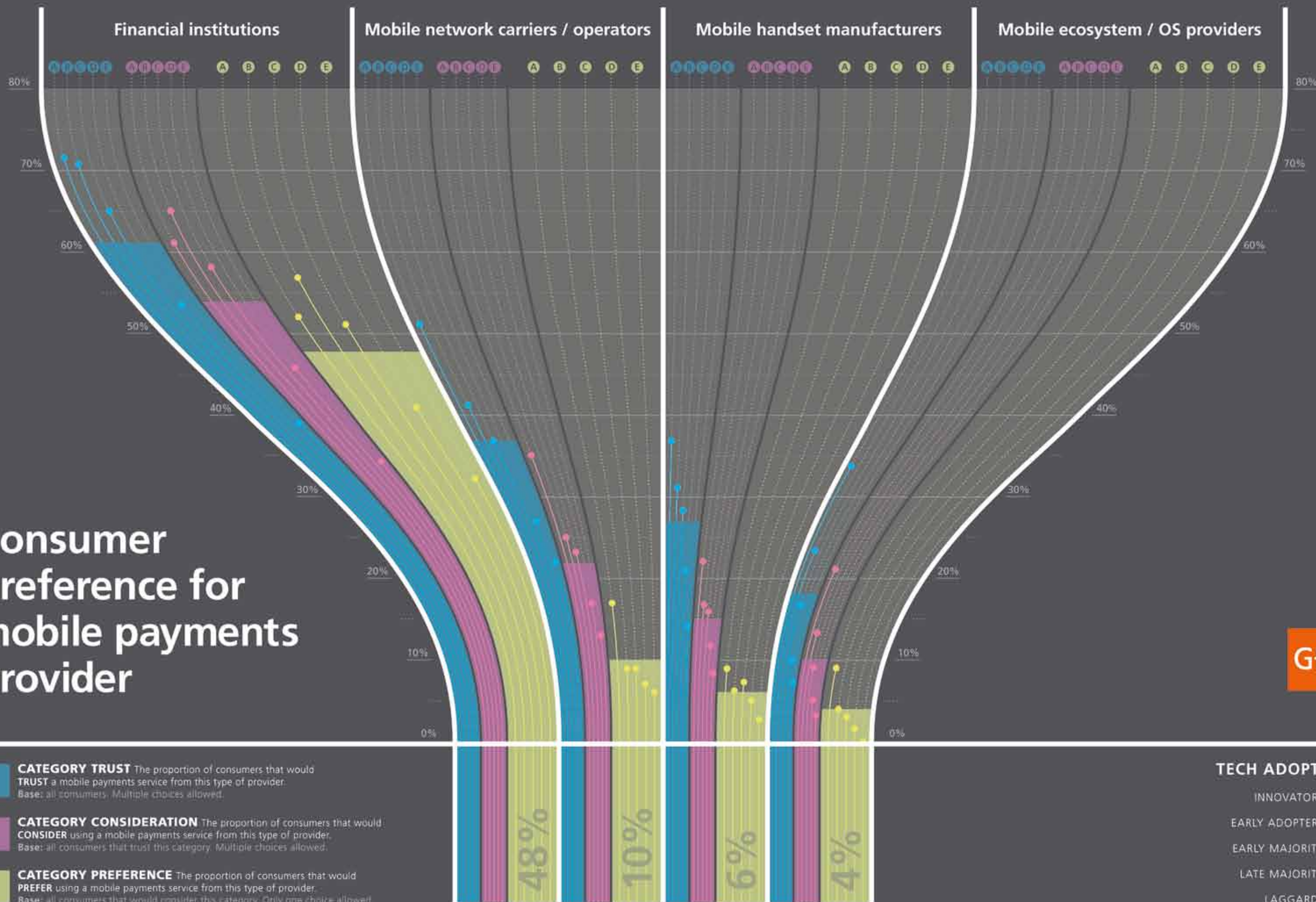
Consumer preference for mobile payments provider

GfK

- CATEGORY TRUST** The proportion of consumers that would TRUST a mobile payments service from this type of provider.
Base: all consumers. Multiple choices allowed.
- CATEGORY CONSIDERATION** The proportion of consumers that would CONSIDER using a mobile payments service from this type of provider.
Base: all consumers that trust this category. Multiple choices allowed.
- CATEGORY PREFERENCE** The proportion of consumers that would PREFER using a mobile payments service from this type of provider.
Base: all consumers that would consider this category. Only one choice allowed.

TECH ADOPTION

- INNOVATORS A
- EARLY ADOPTERS B
- EARLY MAJORITY C
- LATE MAJORITY D
- LAGGARDS E



Drivers of Adoption

Before we look at how the drivers of adoption vary, it is worth looking at the benefits of mobile payments in more detail. These fall into two broad categories:

- » **Convenience.** Close proximity mobile payments allow a consumer to touch their phone against a NFC reader to pay for their items. The process is quick and if the transaction is under £15, the user does not have to enter a PIN. For small purchases, like newspapers or a coffee on the way to work, mobile payments offer a quick and simple method of paying for items, which in turn reduces queues and congestion in store.
- » **Ecosystem integration.** With payments being executed with a mobile phone there are a number of benefits over using just a contactless card, which ultimately offer the same benefits stated above. Firstly, all the mobile phone offers a user interface (UI) where the consumer can interact with their account. Apps can be developed that could theoretically provide account information, purchase history and the current balance for the account. If the app could also interact with other applications and mobile services such as location based services, consumers could receive promotions and offers on products of interest in stores nearby, based on previous purchases. In addition, product recommendation engines can be developed by either suggesting products based on previous purchases or linking a user's account to their social networks to receive tips on what their friends have bought.

» Whilst financial brands have built up high levels of trust, mobile-based brands such as Nokia and Apple, and relatively new financial brands like PayPal, have the potential to quickly disrupt this seemingly comfortable position «

Whilst, on the one hand, all of this might sound extremely appealing, on the other, it could sound like one big security risk. Security – one of GfK's four TechNeeds[2]. - is a huge issue, which is why one of the key drivers of mobile payment service preference is brand trust. Which brand do consumers trust to process mobile payments and keep their most personal data safe from fraud and theft? As we've seen already, globally, most consumers place their trust in financial institutions. However, there are three interesting brand differences worth highlighting:

Firstly, Nokia in China is among the most trusted brands of any category in the research, receiving a score of 38% - much higher than its global average of 14%. In addition, when we break down Nokia's global preference score, most votes of preference come from China. The reason for this level of Chinese consumer preference is, again, trust, with one-in-two people in China stating trust as the main driver of preference. Nokia has built a strong brand in China over the years, based on delivering reliable mobile solutions to a large proportion of the Chinese population. This shows that whilst financial brands may lead on trust, mobile companies with strong brand equity can leverage it in an area that is not their core business or current specialism.

Secondly, Apple, which also has a very strong brand which drives higher levels of trust among their existing customer base. This raises their global trust average of 11% to 38% among iPhone owners. Those that own iPhones are already used to using their iTunes account to pay for apps and media content. As these Apple consumers have already experienced this kind of remote financial transaction, the step to paying for physical products with their iTunes account is less of a stretch.

And finally, PayPal, whose experience in delivering remote mobile payment services to consumers places it in a strong position in both financial and mobile spheres. As a brand it boasts high levels of trust and consideration. But, most interestingly, it has the highest brand preference of all those tested in this research. At a global level, trust usually drives mobile payment service preference. However, for PayPal, the drivers are completely different. The fact that consumers have already used PayPal to send or receive remote mobile payments before drives consumer

preference for the brand when it comes to proximity based mobile payments. Closely following this familiarity of PayPal's remote service (30%) comes the fact it is deemed a specialist in processing payments generally (21%). Trust (17%) remains important for PayPal, but is only the third most important stated purchase driver.

These three brand examples show that whilst financial brands have built up high levels of trust, mobile-based brands such as Nokia and Apple, and relatively new financial brands like PayPal, have the potential to quickly disrupt this seemingly comfortable position.

Co-operation: The Quickest Road to Drive adoption

The future of mobile payments is not just about convenience and simplicity, even though this is a strong driver of appeal in more developing markets like China and Brazil. Once the infrastructure is in place, and security fears are allayed, the secondary benefits will be harnessing the power of smartphones by integrating physical payments in the real world with the virtual world of the mobile ecosystem. Examples of key services to be integrated with mobile payments would be location, online price comparison, special offers and opt-in targeted promotions.

Last year GfK published a report that assessed the importance of mobile ecosystems in driving loyalty in the smartphone market. The research in this report primarily focused on the availability of content, apps and services on smartphones and, increasingly, tablet PCs. By creating an exciting line-up of content, smartphone OS providers could generate higher levels of loyalty to their 'ecosystem'.

With the arrival of mobile payments, the mobile ecosystem becomes more than just content and apps in a digital world. By integrating offline purchase data into this ecosystem, the line between digital behaviours and purchases in the physical world begins to blur, especially when core smartphone services such as location are integrated with purchase data. This was perfectly summed up by Jeroen van Dinther, Principal Consultant Retail Innovation at Wincor Nixdorf, in a recent interview with GfK:

"The best thing that NFC can offer is that it links the virtual commercial world with the physical commercial world." [3].

Jeroen makes a strong point which links back to the question posed at the beginning of this paper: 'Who owns the relationship with customer?' It is our view that no one brand can own this relationship by itself. To make mobile payments work, to advance the benefits beyond just convenience and capitalise on the benefits gained from an integrated ecosystem, several brands need to be involved.

Financial brands add a layer of trust that mobile brands have not yet nurtured in the financial world. Mobile carriers have a well-rehearsed customer support network and the connectivity infrastructure to make proximity based payments fast, reliable and secure. Mobile handset and OS providers have developed strong mobile brands, and have already made the use of services and payment of items via the mobile phone a simple, integrated and common behaviour. By tapping into all of these strengths, a mobile payments solution would quickly gain momentum with consumers and put an end to continued delays NFC based services have received in recent years.

Sources

GfK Financial Research Survey (FRS), 6 months rolling Jan 2007-March 2011, 60,000 adults interviewed annually
GfK Business & Technology, TechNeeds
Jeroen van Dinther interview, "The Mobile Payments Ecosystem", TechTalk, May 2011.



THE MOBILE PAYMENTS ECOSYSTEM - An industry perspective

Interview with Wincor Nixdorf’s Jeroen van Dinther

The mobile payments ecosystem is developing rapidly, with handset manufacturers, network operators and financial institutions all getting on board to offer services. To help us explore the industry perspective, TechTalk spoke to Jeroen van Dinther, principal consultant for retail innovation and shopper experience at Wincor Nixdorf. Below are some select extracts from the interview.

The mobile payments landscape

Despite the recent upsurge in industry and press activity around NFC-enabled smartphones, it’s important to remember that mobile payments, both remote and contactless, are not a particularly new concept globally. “I think that the big example is of course Japan”, van Dinther says, “Because they were very early movers on the topic; mainly based on contactless payments, which were then integrated into mobile handsets.”

And the lack of a clear banking infrastructure can also drive adoption, he explains “In Africa, for example, you see a lot of mobile payment activity, more than in the Western countries, because we have a different legacy. They’re remote payments, because people don’t have a bank account, but can make financial transactions linked with their cell phone subscription”

Focussing on contactless payments, this isn’t the first time that interest has been generated around NFC smartphones “I’ve been working on the NFC topic since 2005” says van Dinther, “and at that time I think the predictions were that we would have

500 million handsets by 2010. And that shifted year over year, basically not making any progress. But I think that the situation is changed now, because handsets are actually arriving in the marketplace.”

Chicken and egg

“There’s still the chicken-and-egg situation” he adds, “where you as a consumer would say, “Ok, why should I buy this technology if I can’t use it anywhere?” and from the other part of the equation, it’s, “Why should I introduce the solution now when nobody has the technology.”

So if 2011 is to be the year, how prepared are retailers to deal with demand? Importantly, contactless cards have laid the foundations in many markets, van Dinther explains “for contactless payments, we see that adoption is basically driven by contactless cards, and the NFC phones basically hitchhiked along with that development, because [they’re] the same from a reader perspective.”

Essentially, this means that in markets where contactless cards are more established, the transition to NFC phone payments could potentially be quite smooth. “Don’t forget that there are billions of cards already out there” van Dinther elaborates “and at least four billion of them are contactless and over 40 million suitable readers are already in place.”

The retailer / consumer relationship

When considering mobile payments, van Dinther says, retailers still need to decide what’s in it for them. However, one key advantage could be that people tend to spend more using cashless payment methods “in convenience stores and at vending machines where we introduced cashless payments, the average spend and number of transactions went up significantly, because you don’t have to worry whether you have the right coins or paper money with you.”

Nevertheless, while some of the clearest benefits for both retailers and consumers lie in bespoke marketing, van Dinther points out that there needs to be a level of control on the consumer side “we’re talking about permission-based marketing. People should be able to create a personal profile in which they indicate whether they are open to receive promotions, and what we’ve seen from other mobile marketing solutions is that you can choose for which categories or which stores you would be open to receive promotions or not. You can’t [send marketing] without asking, because then it’s basically spam, and the irritation level will be reached rather fast, so people will opt out of the payment scheme altogether.

Powerplay

Since the revenue stream from contactless mobile payments is potentially huge, ownership of the relationship with the customer is clearly crucial. “It’s a permanent struggle, a powerplay, where the major question is, “Who owns the customers?” Is it the carriers? Is it the banks? Is it the retailers, or the public transportation companies? So that’s the question that basically blocks, or has been blocking progress over the last years.”

And while there are concerns that one party could create a monopoly in this ecosystem, van Dinther thinks that the reality may be more balanced. “I think there’s no one brand that will come in and take control. There’s a couple of companies well positioned to play a role, and Apple and Google are two of those, but from a carrier perspective, I think that the carriers have been trying over the last years to assure their position in the ecosystem, because they know that they need to get a piece of the action.”

Security

Security is obviously a serious concern for consumers, and something that is being addressed. “There needs to be a very high level of security on the NFC phones” van Dinther explains “otherwise it could be hacked or read by people with other intentions”.

“In an NFC phone, regardless of whether it’s on the SIM card or on the memory card or in the phone itself, there needs to be a secure element – and there will be a secure element. Basically it could be regarded as a safe where you need specific keys to enter, and then within the safe you would have different drawers with card or application data and those would have keys as well. So [whoever] is managing all of the applications and the data in that secure element, that needs to be a certified party.”

Brand trust

In that context, brand trust will be incredibly important, especially for mobile handset and operating system brands. “There’s a big difference between Apple and Google”, van Dinther says, “for Apple, with iTunes and all of the financial transactions that have been done around the music, I don’t think that they’ve had any severe problems so far around security. So people trust that when they buy at Apple using what Apple is offering them in terms of payment security”.

Nevertheless, that doesn’t mean other brands aren’t well-situated, he continues “Google is definitely entering the market, but also players like eBay are positioning themselves better and better; Amazon I think is now also joining the game. eBay has had PayPal as a trusted payment mechanism, so linking that to NFC would also be a logical step”.

The potential of NFC

To conclude, van Dinther gives his thoughts on the potential of NFC “I think that the best thing NFC can offer is that it links the virtual commercial world with the physical commercial world. NFC is best equipped to very intuitively make that connection. This part of the NFC phone functionality is comparable to 2D barcoding, but more intuitive and exciting, so the combination of all NFC capabilities will make it a winner.”



Jeroen van Dinther is the principal consultant for retail innovation and shopper experience at Wincor Nixdorf.

MOBILE PAYMENTS AND THE POTENTIAL OF NEAR FIELD COMMUNICATION IN 2011

Nick Peppiatt

Near Field Communication technology, or NFC, has the ability to transform smartphones into virtual wallets, where users pay for transactions simply by waving their phone at an appropriate receiver terminal. However, it also has much wider applications, allowing for synchronised content and services across the mobile ecosystem [1]. As we have seen in the previous article, many brands are keen to enter the mobile payments space, and as a result everyone, from mobile operators to device manufacturers, is fighting for a share.

The industry message seems clear: mobile payments will be big over the next five years – big news and big profits. The technology has been around in various forms for years and, now that leading names such as Apple, Google and RIM are designing and manufacturing NFC-equipped devices, many commentators predict that mobile payments will skyrocket [2].

However, while this will undoubtedly be a major growth area for the future, such reports seldom address the fact that the journey to full consumer adoption is not without its pitfalls and as the previous article discussed, consumers need a certain level of trust to enter this space.

In March, Apple declared themselves out of the running for iPhone 5 – choosing instead to concentrate on iPhone 6 for NFC capabilities [3] – while RIM are experiencing difficulties reaching an agreement with network operators [4]. Even when a working payments system is eventually in place, what guarantees

are there that it will provide the benefits, security and practicality to ensure consumers actually use it? To explore these challenges, let's break down the mobile payments structure to its core elements.

Consumer base

It's all very well having a shiny new technology offer, but, if no-one has access to it, then its days are numbered. It's also important to remember that industry buzz does not necessarily correspond with actual consumer uptake. As I write, only a handful of smartphones on the market come NFC-equipped as standard. The Google-branded Nexus S is the most well-known, but this feature is dormant in any practical sense until an overarching payments structure is in place. Of course, more handsets with NFC capabilities will appear throughout the year, so the potential user base will increase. Nevertheless, at the end of 2010, smartphone ownership smartphone ownership is around 11% globally and more than 20% in the UK [5] and other developed markets, so, while already

substantial and continually on the rise, access to mobile payments technology cannot be assumed to be a universal thing for some time yet. Moreover, handsets are only a part of the story, since they all require an operator network to function fully – and throwing operators into the mix adds to the complexity of the structure. The reason is simple: if handset manufacturers need the operators to make mobile payments a reality, then the operators will expect a cut of the revenue made. This would be a moot point if manufacturers and operators agreed on how best to implement the technology but, tellingly, they don't.

To SIM or not to SIM

And there's the rub: currently, no industry standard exists. Manufacturers such as RIM are arguing in favour of handset-based NFC chips, allowing them to deliver a tailored payment service to BlackBerry customers which could act as a unique selling point for the brand. Obviously the operators don't see this as such an advantage, since it renders them merely a

» Having standardised technology across all systems would make purchase choices far easier, and a similar case can be put forward for the merchants and vendors who fit the NFC terminals in their stores, since they won't have multiple systems to contend with «

conduit for the handset brand, rather than an active player in the mobile payments system. Instead, operators want to see SIM-based technology, pointing to the fact that this allows greater freedom for consumers to move between different handsets, manufacturers and operating systems. In effect, the handset would become a vessel for the technology and would not dictate its use.

Undoubtedly, the consumer argument is valid. Having standardised technology across all systems would make purchase choices far easier, and a similar case can be put forward for the merchants and vendors who fit the NFC terminals in their stores, since they won't have multiple systems to contend with.

In this context, Apple's decision to rein in on NFC in the short term speaks volumes. Their concern over the lack of an industry standard suggests that they have chosen to take a step back and observe how the technology debate evolves, in order to back the most successful approach when a likely winner emerges. In itself, this isn't necessarily surprising; the implementation of a new technology can be an energy and resource-sapping ordeal for any company. However, it becomes more intriguing when you consider that Apple have a secret weapon up their sleeve.

Show me the money

Which brings us to the next level of the structure – the financial partners. When paying for products, customers will need a credit source, most likely a pre-paid

account topped up from the customer's bank account or credit card. So, with the right partner, an operator could have a wide financial reach. In the UK, Everything Everywhere (Orange + T-Mobile) and Barclaycard announced their partnership early on, while RIM and Bank of America have linked up Stateside. Powerful combinations, no doubt, and these partnerships also carry other advantages, releasing operators and manufacturers alike from dealing with the quagmire of payment approval, resolution and fraud.

One company to keep an eye on is Apple, because they already have a fantastically popular global payments system in place – the iTunes Store. With millions of customers already buying media through digital wallets, Apple could take a big chunk of the mobile payments market all by themselves. An NFC-equipped iPhone would, most likely, function in a similar way to other devices, but the key difference is that iPhone users are already familiar with using their phone to buy digital products. It would only be a short step to encourage them to do the same through NFC terminals.

At first glance Apple seem to have a winning formula on their hands, so do the competition stand a chance?

In markets like the UK and the US, at least, the answer is a definite yes. By partnering with Barclaycard, Orange is able to draw on a wealth of experience in the contactless cards market. In a similar way to NFC-equipped mobiles, contactless

cards enable shoppers to pay for products simply by tapping their bank card against a reader terminal at the checkout. While actual take-up is still low, it does mean that Barclaycard now have 42,000 working terminals installed countrywide, in shops such as Pret a Manger, Little Chef and the Co-Op [6]. Crucially, this payment system will be fully compatible with the NFC technology in upcoming smartphones. Apple simply don't have the same level of experience with this size of physical infrastructure, and, when you consider the company's fondness for proprietary systems, it becomes clear that any solution they deliver will need to be carefully managed. After all, the iPhone operating system is limited to iPhone users only. Android, meanwhile, can develop payment apps that have the potential to reach a larger customer base across multiple handset brands. Apple could have a game-changing hand, but they have to play it in the right way, at the right time; as smartphone ownership increases, they run the risk of becoming too niche, despite the iTunes influence.

NFC + App = Infinite Possibilities

The reason operating systems are so important is because they will play a key role in determining how NFC payment actually benefits consumers.

Simply put, just because this technology is in your phone, doesn't mean you will actually use it. At the checkout, if paying with your mobile is no easier, faster or beneficial than paying by cash or with chip and PIN, then why would you? After all, reaching for your phone is not going to be any quicker than reaching for your wallet.

In many ways, the typical shop checkout scenario that habitually accompanies NFC articles is a bit of a red herring. It is a valid scenario but, really, it only describes a small part of what mobile

payments can do – it's just an easy way for commentators to say "NFC is a bit abstract right now, but here's something you can relate to!" The real benefits of NFC come about when it is linked up to the wider mobile ecosystem, and that's where companies such as Apple and Google can really stake their claim.

For example, instead of just paying for items at the checkout, your mobile payment app could be synchronised with your purchase history, your preferences and even your location. With all this information, the app can then start generating bespoke offers and deals for you before you even enter the shop. When in-store, this information will inform any recommendations you receive as you browse and it can link up to your social network so that you can broadcast your verdict on the items you purchase.

The real benefits and convenience for the consumer lie in this integrated system, because it goes far beyond what has been available in the past.

The price of convenience

And these benefits will be important because, around the energetic coverage of NFC technology, sceptical voices can be heard, many with valid concerns.

Security is the big issue, and one that we have highlighted in previous TechTalk articles [7]. NFC technology has the potential to transform smartphones into incredible multi-use devices that not only pay for your weekly shop, but also act as your house keys, as well as enabling users to transfer content, information and even money simply by bumping their phones together.

So what happens if your phone is hacked or stolen? There isn't an easy answer to that one, but the key players are keen to

» Simply put, just because this technology is in your phone, doesn't mean you will actually use it. At the checkout, if paying with your mobile is no easier, faster or beneficial than paying by cash or with chip and PIN, then why would you? «

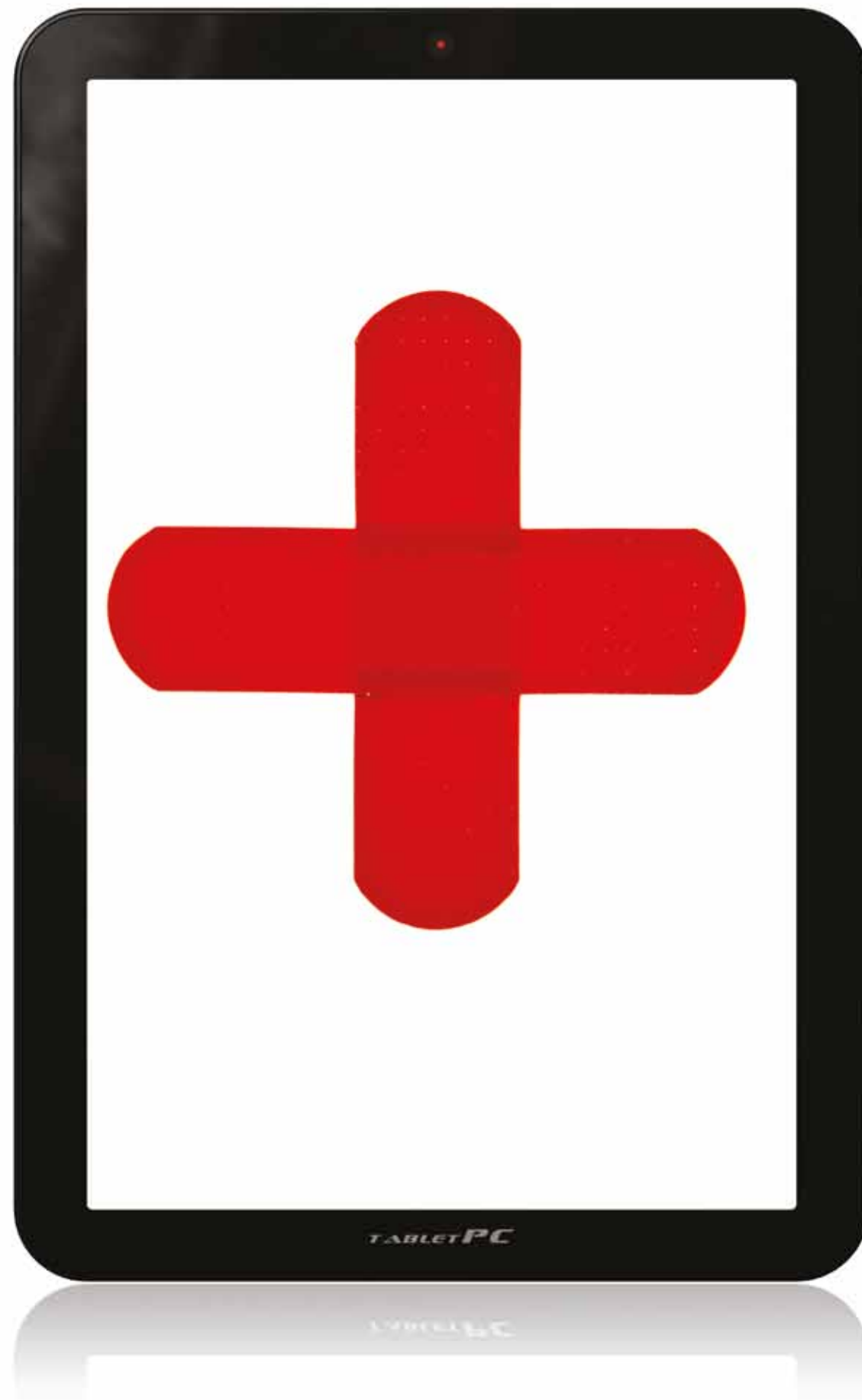
get some reassuring messages out there. Barclaycard, for example, have announced that, since their system will involve a pre-paid account topped up by credit card, it will confer the same insurance and fraud protection as a credit card itself [8]. Of course, even if illegal activities are put to one side, there are still concerns about the quantity of information that mobile companies will have access to through NFC developments. Information on purchase behaviour will undoubtedly be used to inform customer marketing and segmentation, and the sheer quantity of data to be shared with a single party, legally or illegally, is potentially troubling.

Mobile payments will be big news over the next few years – that much seems certain. However, in witnessing the mobile industry gearing up to push NFC technology into the mainstream, it would be wise for onlookers to consider that consumer adoption could be considerably slower than predicted. To function, a mobile payments network requires agreement and co-ordination between a number of parties, each with slightly different motivations and priorities. Manufacturers, operators and their financial partners will all need to negotiate with each other in order to produce a single integrated offer. Once achieved, they will then need to promote that offer effectively to their customers, providing a convincing argument for how this will benefit them in their daily lives.

The real advantages of NFC are the integrated solutions it can offer – bringing together numerous applications all in one device to empower the user. However, it is this very integration that leads to greater personal risks, and if we are going to shout about the benefits, then we can't ignore the dangers. As mobile payments technology develops, brand trust will become extremely important, because personal information will be pushed further and further away from its traditional domain. Instead of the big financial institutions calling the shots, it could be Google, Apple and the national network operators. According to our research a cooperation between the major players could be a win-win solution.

Sources

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TABLET COMPUTERS: THE CURE FOR NEWS PUBLISHERS' AILMENTS?

David Pritchard

With sales of printed newspapers in decline and widespread expectation of free news online, publishers need a radical change of strategy in the way they deliver content, to win back the public's wallets. News site paywalls are currently testing the most straightforward route, offering users unique and diverse content in exchange for a subscription fee, in a bid to effectively monetise a loyal digital audience. The question is, will tablets – bringing with them a richer and more engaging user experience – be the bridge that turns the trickle of paying digital news readers into a flood?

It's no huge secret that print newspaper markets in most developed countries are in decline, and have been for quite some time. Gone are the halcyon days of eight million people turning out to buy a copy of News of the World on a Sunday – indeed, this, once-flagship, News International title has shed over a quarter of its buyers since the turn of the Millennium. This isn't an isolated trend either; although some of the daily tabloid titles have engaged in a self-subsidised "pricing war", in a bid to shore-up sales (or to squeeze the competition out), the general trend for the printed newspaper is downward, with no obvious sign of recovery. With this in mind, it is of little surprise that newspaper publishers have greeted the recent boom in the tablet computing market with open arms.

Free or paid – which is the winning model?

The digital news war has been waged on many fronts for some time now. Newspaper sites such as Guardian.co.uk and Dailymail.co.uk cite their ever-growing user numbers (with the Mail setting perpetual monthly records for UK news sites) as justification for the 'free' model, allowing casual and committed browsers alike unlimited access to their online content, and generating revenue from on-site advertising. While, in the background to this, Rupert Murdoch's News International has begun to draw its wagons into something resembling a circle, asking users to pay subscription fees to view articles on the Times.co.uk and Newsoftheworld.co.uk sites with the objective of securing an engaged and long-term-loyal audience. While there is no clear answer to the dilemma

of monetising digital users at present, the relative secrecy with which subscription numbers and free-to-paid conversion figures have been treated at NI's Wapping HQ would suggest that the actual picture may be somewhat behind the model at present.

FT.com and the 'freemium' model

However, there are exceptions to these examples, in the shape of genuine success stories in the arena of paywalls. The Financial Times was one of the original exponents of paid content and continues to grow its online base of 3.2m registered users and 206,000 subscribers. While it is clear that FT.com's proprietary content around financial markets and analysis is a big draw for its target audience, the choice of a 'freemium' subscription model is also a key component in the site's success. Allowing casual and search-sourced users to view a small number of articles, and prompting free registration to read further (albeit still limited per day); while full subscription provides unrestricted access to the site's content. It is heavily rumoured that the Daily Telegraph will be following a similar model when it launches its online paywall later this year. The main challenge for the publishers of Telegraph.co.uk will be to try and engage digital their audience with this registration mechanism without the same degree of proprietary journalism as the FT.

Consumers still resisting paid news

Going some way to support some of these approaches, research conducted by GfK during March 2011[1] shows that while more

than two-thirds of internet users (71%) access news websites, only 6% of these readers claim to have ever paid to do so. News International recently revealed that its paywall on The Times' website had managed to convert a total 79,000 users to payment by the end of February 2011; and while only the brave would second-guess Mr. Murdoch, it is highly likely that his targets would have been higher than this. It would seem that the paid-news revolution is one which still meets with significant resistance on the part of the consumer. Research has shown that, among those who currently read online news for free, only 3% claim that they would be "Very likely" to pay up for a subscription if their news site of choice blocked access with a paywall. Instead they would turn to the spectrum of free alternatives, right from the simply-syndicated to those with heavy journalistic influence.

Can tablets change the paid news market?

And so, to the tablet market, presently led by the omnipresent Apple in the form of the recently-launched iPad2. It's easy to see the attraction to the publisher – while mobile phones were once lauded as the future of newspapers, no title really managed to make the transition from broadsheet to small-screen with any great success. The tablet however, a market bolstered by the deluge of new releases from big names like RIM (BlackBerry Playbook), Samsung (Galaxy) and HP (TouchPad), makes a far more obvious medium for newsprint. It offers the editor the opportunity to engage their 'reader' in a wonderful portable, media-rich environment, bolstered by WiFi and 3G connectivity to ensure that their news stays one step ahead of traditional printed copy.

The outlook is promising

Although tablet penetration is relatively low in the market at present (around 6% in the UK) and skewed to early-adopters and gift recipients, the outlook is promising. Of internet users who do not currently own a tablet, just under a quarter (23%[2]) cited an intention to purchase one in the coming 12 months, suggesting a market which is very much on-the-up. This data is supported by US research[3], which estimates that by the end of 2011 the global tablet market will have grown fourfold against last year, with Apple's iPad continuing to lead – albeit with a reduced market share, due to incursions from newly-released competitor devices.

This trend has not escaped the attention of the news industry, with almost every publisher of note launching or developing a tablet-friendly service or application. The trailblazer in this arena has been the American publication The Daily, launched in February 2011 (to much fanfare) as the world's first ever tablet-only newspaper, and currently appearing on the iPad with a daily digest to rival most broadsheets. Its publisher News Corp (owned by Rupert Murdoch) was reported to have invested \$30m on its development and launch, with an additional \$0.5m a week to keep the fledgling title afloat, with the aim of convincing the younger news audience to part with \$0.99 a day or \$39.99 a year for a subscription to the service. While The Daily's publishers have kept quiet any figures around user conversion from the free trial (following Feb 2011 launch) to paid subscription, analysis conducted by the Nieman Foundation at Harvard University[4] shows that the volume of social networking activity (trending metrics and tweets) generated by the application has fallen back considerably since the free trial

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ended, suggesting a diminishing number of users. There is a strong likelihood that The Daily will be hitting the UK in summer 2011, although no formal pricing structure has been revealed as yet.

It appears that News Corp isn't alone in its conviction that this is the future of news. Advertising guru Sir Martin Sorrell, head of global advertising giant WPP Group, has weighed-in with his support for Rupert Murdoch's strategy, professing an admiration for the current Wall Street Journal and Times iPad applications. While a self-confessed "realist", Sir Martin holds the belief that "getting people to pay for content is very important", and that The Daily is "the right way to go" [5].

Tablet users: "accessing news websites/apps" is the second most important function

Looking more closely at the tablet audience (both current and future owners) and their needs, it is clear that these devices will be used for a broad range of applications and services, both work and play. GfK research suggests that "accessing news websites/apps" is the second most important function to this audience (58% considered this "Important" or "Very important"), behind "email" (at 76%). The other requirements key to the tablet user's experience look likely to be "accessing work documents/calendar" (53%), "reading ebooks" (52%) and "listening to music" (51%).

As one may have hypothesised, given the tablet's target audience, it is the younger users who have the greatest diversity of needs from this platform – although the appeal of "news websites/apps" and "email" is much more universal, transcending the age groups.

Tablet users: only one-in-seven would be "Likely" or "Very likely" to pay for news

However, this may not necessarily be heralding the good news that publishers are seeking. It appears that many of the consumer attitudes which have been barriers to the success of online news paywalls may also resurface in the quest to convert tablet users to paid subscribers. Only one-in-seven of the tablet audience (14%) say that they would be "Likely" or "Very likely" to pay for access to news applications/websites on their tablet (only 3% consider themselves "Very likely").

While it is clear that tablets are a growing market, representing a significant opportunity for news publishers, the transition to gaining an audience who are willing to pay for this service relies heavily on a step-change in consumers' attitudes to the value of journalism, which is unlikely to happen overnight.

Sources

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- 5. <http://www.newsweek.com/2011/04/03/save-the-media.html>

» While more than two-thirds of internet users (71%) access news websites, only 6% of these readers claim to have ever paid to do so «

» Only 3% claim that they would be "Very likely" to pay up for a subscription if their news site of choice blocked access with a paywall «



THE MOBILE NAVIGATION TREND WILL NOT DESTROY DEMAND FOR PERSONAL NAVIGATION DEVICES, at least not in 2011 anyway

Ryan Garner

Smartphones are competing with dedicated personal navigation devices (PNDs) for market share but recent research shows that PNDs are still preferred for in-car navigation. Smartphones can begin to win more market share by improving their user experience and integrating popular social networking and location based services.

Usage of mobile mapping and navigation services is booming. Almost a year ago Nokia announced that its mobile navigation service, Ovi Maps, would be free with a compatible Nokia handset. In the first week alone the service had been downloaded over 1.4 million times. According to Wikipedia Ovi Maps is now available in 74 countries and in 46 different languages. Similarly, Google now offers its mobile navigation services in 12 countries and it has proved a big hit

with Google Android smartphone owners. While Blackberry's GPS Tool app is offered for free to its users. Consequently, in the space of a couple of years the PND market has changed dramatically, with global in car satellite navigation providers such as TomTom and Garmin facing fresh competition from the all gadget devouring smartphone.

Or has it? New research from GfK Retail and Technology shows that over two-thirds (70%) of smartphone

» Over two-thirds (70%) of smartphone owners in the UK, Germany and France would prefer to use a dedicated PND for in-car navigation rather than their smartphone navigation service «

owners in the UK, Germany and France would prefer to use a dedicated PND for in-car navigation rather than their smartphone navigation service. This highlights some of the inherent user experience problems of smartphone based navigation services that can cause consumers problems.

A great strength of PNDs is their screen size and variety of map formats. This is where PNDs scored highly compared to smartphones in the GfK research. Whilst this is currently an issue among consumers, smartphone screens have been gradually increasing in size with the Samsung Galaxy S, running Android, having a four inch screen. Whether this is large enough or not remains to be seen.

» Just under 80% of people were satisfied with PNDs for vacation trips, whereas only 66% say the same for smartphones «

Probably the most critical flaw in smartphone navigation services is their reliance on a strong mobile data signal and the GPS receiver inside the smartphone. The mobile data signal is required to download the maps to the device in order to plan the route. Whilst Nokia users can overcome this by pre-installing the maps on the phone, this remains a problem for Google users. More problematic for smartphone users is signal strength of the GPS receiver. PNDs typically have stronger GPS receivers and are able to pinpoint your location more consistently and accurately. This is shown again in the research with just under 80% declaring themselves satisfied with PNDs for vacation trips, whereas only 66% say the same for smartphones.

Furthermore, a great asset of PNDs is their historical road data and live traffic updates. PNDs are currently better able to use this data to guide the user through the fastest route possible, a great asset in creating a better user experience.

Personal navigation market beyond 2011

With clear benefits to using PNDs and better feedback from consumers concerning the user experience, PNDs still hold a valuable place in the personal navigation market. Can smartphones overcome these user experience problems and better compete with dedicated PND devices? Consumers in Germany seem to think so, with 53% believing smartphones will be able to compete with PNDs in the future (48% in the UK and 39% in France).

Furthermore, it is clear that location based services are becoming more popular among smartphone users. Foursquare and Facebook Places allow people to share their location with their friends and arrange places to meet. Connecting people and places will, in the future, create enormous value for consumers. A key theme at the 2011 Mobile World Congress (MWC) in Barcelona was around mobile advertising and marketing. Location will play a pivotal role in the success of mobile marketing as advertisers can execute highly targeted and relevant location based promotions. If popular location based services can be integrated into mobile navigation services then smartphone devices will become increasingly important for navigational purposes.

With smartphones developing as fast as they are and consumers' increasing reliance on mobile based services, PNDs are likely to face more serious competition in the years ahead.

Sources

This survey on the use of navigation devices was conducted by GfK Retail and Technology in November 2010 in Germany, France and the UK. More than 2,000 users of navigation systems took part, revealing their preferences, usage patterns and requirements. The survey also identified areas of potential in the market.



STRONG INDICATIONS OF GLOBAL TECHNOLOGY, MEDIA AND TELECOMS SECTOR GROWTH BUT EUROPE LAGS BEHIND

Simmons & Simmons Global TMT Risk Management Survey

Global law firm, Simmons & Simmons, recently commissioned GfK to conduct the first in a series of proprietary surveys looking at risk management amongst global Technology, Media and Telecoms companies. The goal was to identify key challenges organisations are facing, the role of technology within this and how risk is being managed. Below are the key findings from the report.

Optimism and markets served

Businesses within the TMT sector are positive about prospects for the coming year, with more than two-thirds (69%) expecting growth in their industry. In line with Brazil's booming economy, there is particularly strong optimism in the country where 88% of respondents expect growth. European businesses are more pessimistic, with almost a third (29%) expecting their industry to decline. European telecoms companies are noticeably more pessimistic than telecoms companies in other regions. However, when compared to other global sectors, the telecoms sector, is the most optimistic, with more than three out of four respondents (76%) forecasting growth within their sector.

TMT sector businesses largely have an international outlook. Almost two-thirds (61%) have overseas premises and 34% gain the majority of their turnover from international sales.

Risks faced by the TMT sector

Behaviour within the TMT sector will be influenced not only by both business risks and importantly, the level of confidence felt by each business in its ability to manage those risks. Nearly all TMT businesses (96%) believe they face business risks of some kind. The most commonly identified single risk is the rate of technological change, recognised by more than four out of ten TMT businesses (45%). However, some variety of economic risk exists for nearly all businesses (86%).

Economic and financial risks and drivers

The aspect of economic risk that appears to be of most concern in the TMT sector is economic growth, identified as a risk area by almost four out of ten businesses (37%). Inflation and exchange rates are also identified as important risk areas (36% and 34%

respectively). Three quarters of TMT sector businesses (75%) have been affected by the recent "credit crunch" and economic downturn in some way. One-third has seen reduced revenue and a similar proportion reduced customer demand.

However, the downturn also appears to have encouraged some TMT sector businesses to take pro-active steps in response, for example by expanding into new markets or launching new products. Around one in four TMT businesses (24%) see competitor activity as a major risk facing their business and 5% consider it the single greatest risk they face. This is a particular concern for businesses in Europe and Asia. Technological risks (including rate of technological change) are faced by 70% of TMT sector businesses and for 22% this

So what's the bottom line?

- » Broadly optimistic sector outlook for 2011, however, confidence is unevenly spread across the globe
- » European companies are the least optimistic about growth and the least confident in managing risk; the Americas are the most optimistic with 80% expecting growth
- » 64% of TMT companies plan to grow by going into new markets
- » Economic risk is perceived as the main overall threat by most businesses
- » The rate of technological change is the largest single perceived risk

Technology drivers

represents the greatest area of risk they face. Businesses in Asia are particularly concerned about these risks, with 85% identifying risks in this area. Interestingly, while 32% of Asian businesses saw technological risk as the greatest risk area, this was true of only 14% of businesses within the Americas. Issues around the rate of technological change are closely related to competitive pressures; for example, the risk of being left behind if competitors adopt a new technology more quickly or the potential loss of business through new entrants leveraging new technology in products and services. Almost all TMT businesses (93%) believe that advances or changes in technology have had an impact on them, with a third (34%) reporting a significant or major impact.

Technological changes are most likely to have influenced product innovation or business efficiencies. Nearly all TMT businesses (97%) also predict technology developments will have an influence on their industry over the next 12 months; the most common being the consolidation of IT infrastructure and virtualisation (both likely to affect almost half of all businesses).

Managing risk and maximising opportunities

Around nine out of ten businesses in the TMT sector (89%) are confident that they can successfully manage the risks facing their businesses. However, only around a third (33%) would consider themselves "very confident" in this area. Small businesses, those in Europe and those in the media sub-sector are the least likely to believe themselves to be "very confident". Interviewees mentioned a number of formal processes for measuring and managing risk, for example through risk maps or risk registers. However, those expressing a particularly strong level of confidence in their organisations' ability to manage risk highlighted the

importance of combining these processes with a more human approach, drawing on the skills of key personnel both within and outside the organisation. In many cases, managing risk is seen as a process that goes hand in hand with making the most of opportunities. Some factors that can be seen as risks can be considered opportunities in the right circumstances. Furthermore, a certain degree of risk is inherent in taking action to seize opportunities involving the unknown; for example, new markets or new ways of working. It is therefore interesting to note that the two areas where TMT sector businesses are most likely to see opportunities, new markets and new product development, will involve undertaking and managing previously untried approaches.

Sources:

The survey, conducted by GfK Business and Technology on behalf of Simmons & Simmons, interviewed 692 business decision makers in the TMT sector across four regions: Europe, Americas, Asia and the Middle East between October 2010 and January 2011. Respondents completed an online survey but in the Middle East participants were interviewed by telephone or face to face.

Further details:

To read the full report, published in by Simmons & Simmons in January 2011, simply email TechTalkinfo@gfk.com to receive a free copy.

GfK’s new approaches to digital research

WHAT THE .DX IS HAPPENING WITH DIGITAL?

Norbert Wirth

The consumer has become a digital individual; to fully explore that shift, researchers have had to go digital too – and this clearly goes beyond “traditional” online surveys. GfK’s ad-hoc research in “digital” is forging ahead, with their latest instruments grouped under the brand “GfK .dx solutions”.

Digital research covers two areas: the first, investigates how people interact with the digital environment and the second, looks at digital techniques to understand these interactions.

Digital is changing consumer lifestyles and markets

With the diffusion of devices allowing fast and easy access to the online world, digital is changing how consumers communicate, shop, gather information, engage with brands and interact with companies. The number of touch points that consumers now have with their favourite brands is vast. The popularity of the digital world hasn’t just changed the number of contacts: it’s also opened up a whole new range of communication tools and information pools that market research can tap into.

Market research must be able to investigate all of these touch points and a key part of that role is advising clients on what technique will be most effective for their needs. It’s our common responsibility to develop an understanding of how to use both traditional and digital research

techniques, whether using just one or a combination of the two.

GfK .dx solutions

With a fast-growing array of digitally-enabled research techniques, GfK grouped its digital offerings under the umbrella brand, GfK .dx solutions, each offering targeted at a specific objective. GfK is blending its research experience with the new digital techniques, balanced alongside its traditional approaches.

Below is a brief overview of three approaches that have been brought under the GfK .dx umbrella: GfKSiteObSurvey.dx, GfKMarketObSurvey.dx and GfKSocioLog.dx.

GfKSiteObSurvey.dx

GfKSiteObSurvey.dx is a research approach created with GfK’s digital research expert, nurago, which analyses the usability and the user experience of a website. It works in one of two ways: either independent visitors to the site receive a “layer” as they land, asking if they would participate in a short survey on the site’s usability.

Those who accept complete their visit as planned, before answering questions on their experience. Alternatively, GfK uses existing panel members, targeting those who match the site’s own audience profile. These people are asked to go to the site and to carry out a specific task, such as finding an item of information; they then fill in the survey questions directly afterwards.

In both cases, GfK asks for permission to track their usage. So, in addition to the survey response, market researchers also get information on how each person has actually navigated through the site. This is the main difference between GfKSiteObSurvey.dx and a standard feedback survey, making GfKSiteObSurvey.dx much more powerful.

Last year, the global Advertising Research Foundation (ARF) used GfKSiteObSurvey.dx, when they wanted to improve the user experience for visitors to their website, www.hearf.org. The results were illuminating: the study found that the main reason people visited the site, to gather information, was also the area they quoted most as being where the site fell short.

Even leaving out the rest of the findings delivered by the survey, this one insight on its own gave ARF a clear understanding of how to make a huge improvement in user experience.

GfKMarketObSurvey.dx

GfKMarketObSurvey.dx, also based on nurago technology, helps to explain the wider digital landscape for a specific market and the opportunities available within it. This tool relies on a browser add-on, which participants download onto their computer, allowing online usage and behaviour to be monitored both longitudinally, across multiple online sessions, and qualitatively.

A pilot study using the GfKMarketObSurvey.dx product was run in Germany last year, with the aim of uncovering the relative influence of online and offline touch points on a consumer’s purchase decision. The chosen field of study was that of “buying a new mobile phone” and respondents were recruited from panellists who were currently considering buying a new phone or tariff plan. GfK’s research experts ran an initial

survey to understand the current state of each respondent’s purchase journey and their purchase criteria. The full monitoring stage then started in earnest, with four weeks’ continuous measurement of each respondent’s online behaviour, mixed with intercept interviews, to evaluate preselected online touch points as the respondent encountered these in real time.

The results clearly showed the richness of the data that GfKMarketObSurvey.dx produces. GfK’s researchers were able to see which different websites individuals visited during their online research, how long they spent on each site and how many times they revisited certain sites. Finally, the event-triggered intercept interviews and the review stage allowed the researchers to dig into the reasons behind each respondent’s satisfaction rating for the various touch points used and to understand the amount of influence each had on the ultimate purchase decision.

GfKSocioLog.dx

GfKSocioLog.dx is GfK’s brand for digital qualitative research, using a state of the

art software platform. The GfKSocioLog.dx approach allows researchers to tap into time-poor or hard-to-reach respondents and so open up new audiences.

GfK’s recent qualitative projects have very successfully used GfKSocioLog.dx to add a digital element within multi-modal studies. One such was for a client who wanted to understand how digital camera users were building photography and imagery into their lifestyles and how this had evolved in the digital age. The ethnographic package that GfK designed blended traditional home visits and accompanied shops with online blogs and image diaries from the respondents.

In summary, GfK .dx is a vibrant area that is growing fast by delivering creative solutions to client’s research needs, and opening up new communication channels and information pools.

Further information contact: digital@gfk.com





MONITORING THE EFFECTIVENESS OF ADVERTISING ON SOCIAL MEDIA PLATFORMS

Robert Wucher & Jens Barczewski

Social media is increasingly shaping the communications landscape and this means that adjustments must be made to the way in which the success of communications measures are monitored. Although social media campaigns are now all but essential for companies, it is still difficult to determine their real value for marketing strategy. This article demonstrates how this was achieved for O2 and HTC.

Traditional indicators such as conversion and click rates are not sufficient for evaluating the effectiveness of communication measures in social networks. In this domain, success criteria such as image improvement, brand loyalty and recommendation rates are more important. Taking O2's and HTC's "University Band Battle" campaign by way of example, nurago and GfK conducted a survey to evaluate social media campaigns real value for marketing strategy.

To promote a new HTC smartphone particularly focusing on music and social networking features and exclusively available at O2, both partners created a joint brand community on Myspace to run the "University Band Battle". The prize of this competition for up-and-coming musicians was the chance to perform as a warm-up act for a quite popular professional German band. Bands with at least one student member were permitted to enter the competition. Ten finalists were selected and Myspace users were then able to cast votes for their

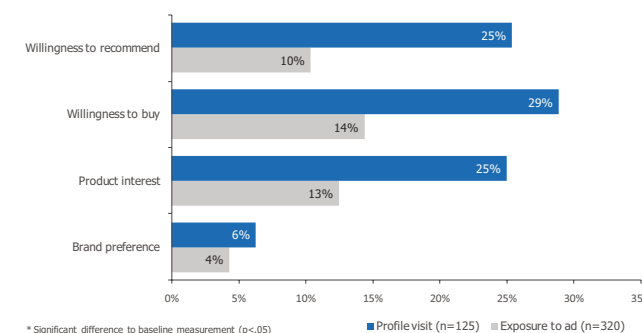


Figure one: HTC: increase in most important metrics*

favorite acts. Within the campaign, the participating bands and their fans acted as multipliers for the "University Band Battle": musicians directly made their fans and friends aware of their participation and the voting on Myspace. To this end, they were able to use viral features such as the "ID Badge", which integrates the profile picture of a Myspace user who is logged in by embedding a code in their personal Myspace profile or on an external website.

The first step was a baseline measurement to determine the status quo of the O2 and HTC brands prior to the launch of a campaign. The user group for this measurement was not exposed to any online advertising or the profile page before the start of the campaign and formed the control group. In the second stage, two additional user groups were identified using cookie tracking: users who either came into contact with traditional display advertising, which exclusively ran on Myspace, or visited the respective profile page. The information collected enabled each individual advertisement and specific ad location to be analysed separately.

Cookie tracking made it possible to clearly identify single instances of exposure to advertising material. In addition, the information that was collected allowed specially selected users to be invited to participate in online surveys. Within the context of the survey, participants were selected according to freely definable "classes" of exposure, e.g. those who visit or "befriend" a brand community, as well as the type and intensity

of advertising exposure.

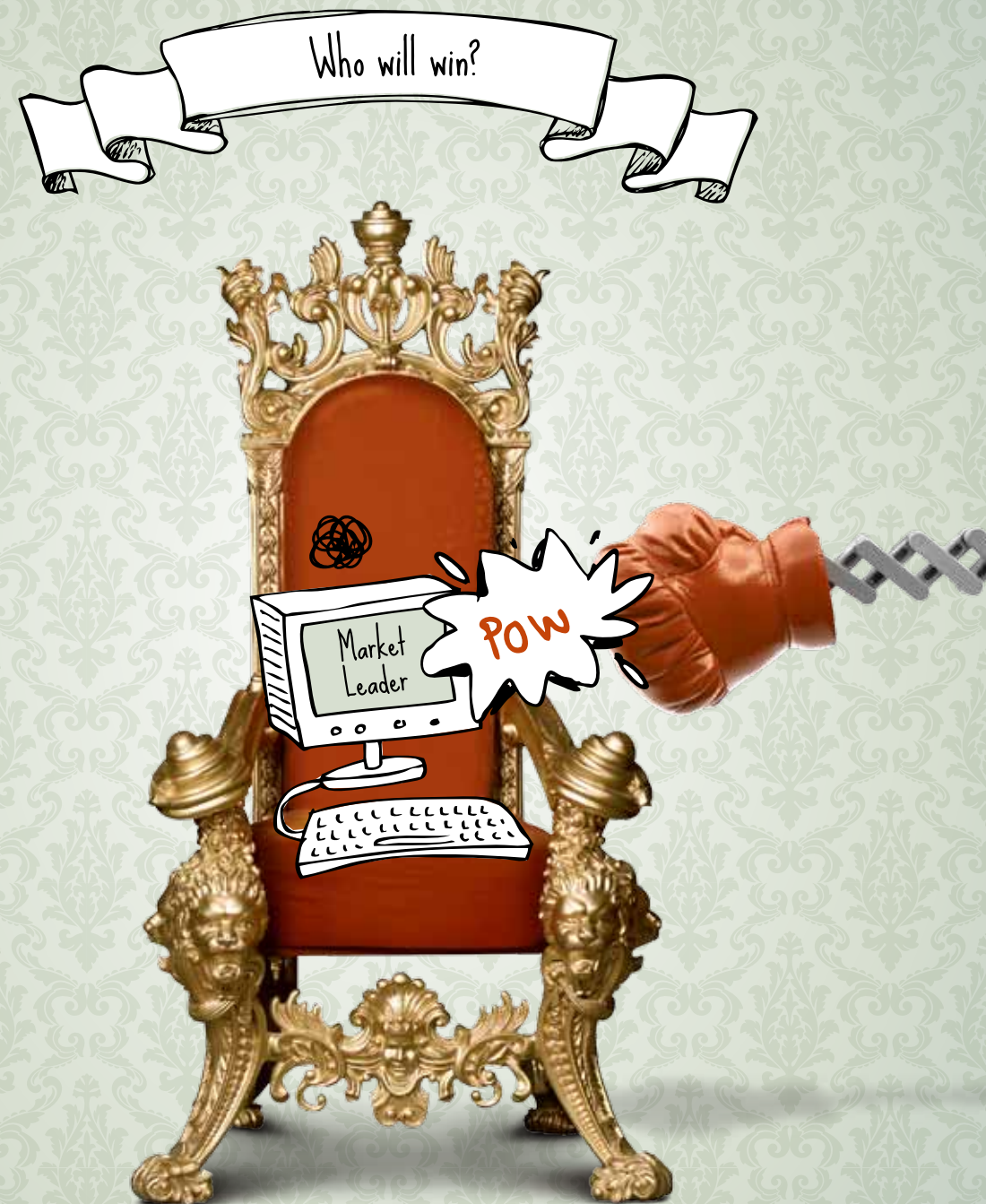
The evaluated findings produce a clear picture: a significant increase can be observed for all surveyed metrics. The Myspace campaign by O2 and HTC generated significantly higher brand recognition in the test groups when compared with the control group. When users were asked to identify which mobile phone providers they recognised from a predetermined list, the group with advertising exposure recalled 9% more than the control group, and of those who had visited the profile, 21% more remembered the HTC brand. The ranking of HTC also improved when users were asked to name familiar mobile phone manufacturers without being given a list of options: the value for product interest was markedly higher in both test groups than for the control group. As a result of the profile visits, the overall proportion of users with a high level of product interest almost tripled in relation to the baseline measurement. Among those who had visited the profile page, the willingness to buy HTC smartphones increased by almost 30% on the baseline measurement. Additional success factors such as the willingness to recommend (25%) and brand preference (6%) improved significantly as a result of the campaign.

The findings were notable because they showed that the campaign group which was only exposed to online ad displays also generated a more positive result than the baseline measurement. A significant increase in brand recognition and preference, as well as in product interest, was identified. This example therefore challenges the validity of the much-debated "banner blindness" assertion.

In addition to the surveyed and measured data, there are additional criteria which prove the success of social media measures. Almost 700 bands registered for the "University Band Battle", which was followed by 74,000 friends. O2 and HTC were so pleased with the social media campaign that the competition was launched for a second time.

The extensive reach and corresponding usage intensity of commercial social media services appear very attractive for advertisers, particularly from a branding point of view. However, the effectiveness of social media campaigns cannot be taken as granted: It is therefore necessary to evaluate campaigns real value for marketing strategy.

{ New Insights }



Does Quality Win? COMPETING AGAINST AN ENTRENCHED MARKET LEADER IN HIGH-TECH MARKETS

Gerard J. Tellis, Eden Yin and Rakesh Niraj

In recent years, with some early entrants to a market commanding huge market shares, critics have wondered whether the best quality products win in the market place. Early entrants can gain a position of wide-spread acceptance among users. The fact that a critical mass already uses the product might prompt new consumers to snowball onto this early choice leading to consumer lock-in. Many economists fear that such “network effects” may enable inferior products to defend their entrenched positions even against higher quality alternatives. This article tests the validity of this premise in 19 high-tech markets including hardware, software, and services. Results indicate that contrary to the above fear, healthy market evolution occurs in most cases without regulatory intervention. Better quality entrants gain market dominance within three to five years of entry. The findings also show that it makes sense to invest in developing high quality products even if the market seems dominated by an entrenched industry leader and that network effects even increase market efficiency in some cases.

Contradictory conclusions on market evolution

Microsoft Windows. Internet Explorer. Oracle relational databases. These high-tech innovations have survived numerous challenges and dominate their respective categories. The antitrust litigation against Microsoft in the US and the European Union in the 1990s suggested great concern about whether the dominance of Microsoft was based on superior quality or abuse of market power. The question arises if market forces support inefficient products of established firms even with the entry of superior alternatives. For example, did Internet Explorer win in the market because it was superior or because of Microsoft’s monopoly power? If so, should these potential problems be the focus of antitrust policy? Or can we rely on the efficiency of free markets to pick the best products even when some firms dominate their markets?

Network or quality, what prevails?

So called “network effects” may play an important role in hindering healthy market evolution. Such effects refer to the tendency of consumers to choose products depending on what other consumers do so. Technically, network effects can be explained as an increase in a consumer’s utility from a product when the number of other users of that product rises. Examples would be the popularity and continual use of Facebook or Word. As a result, consumers may decide to buy and use a product not because it is superior but because their friends and colleagues use it. If most consumers in the market follow this rule of thumb, economists fear that such effects may lead to consumer inertia and lock-in in favor of established inferior products even when newer superior ones exist. Paul Krugman, winner of the Nobel Memorial Prize in

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Economics in 2008, for instance, doubts that “markets invariably lead the economy to a unique best solution”. Instead, he asserts, “the outcome of market competition often depends crucially on historical accidents”. A technology that by chance gains an early lead in adoption may eventually corner the market of potential adopters, with the other technologies locked out even though the latter are superior.

Contrary to this position, scattered empirical research suggests that markets do respond to quality. Superior quality brands do command higher prices, market share, and profits. The key question is, does this also hold in modern markets in the presence of network effects. That is, when a large number of consumers choose brands based on which brand prior consumers chose, does the whole market converge on an inferior quality product?

Explaining the contradictions

The resolution to this problem depends critically on two conditions. First, is quality distinguishable prior to purchase? Second, are at least a small segment of consumers informed on quality? If consumers cannot distinguish the quality of the products prior to purchase, or if all consumers are uninformed on quality, then network effects are likely to dominate the market. As a result, markets will be inefficient, and a brand that first enters the market, will dominate the market even in the presence of superior, later entrants.

» Fairly frequent changes in market leadership were observed in the sample. Market leadership rarely rests with a single brand. «



On the other hand, if quality is distinguishable prior to purchase and even a small segment of consumers are informed on quality, then superior quality brands can win. How will this happen? Each period, these informed consumers will evaluate the brands in the market and will choose the best quality brands. Those who cannot evaluate quality will consult prior buyers of the brands. At least some of them will be informed consumers and would have chosen the best quality brands in the market. So every period, the set of new consumers who choose the best quality brands will increase. As further new consumers consult these informed consumers, more of them will choose the better quality brands and the market will converge on the best quality brands.

The above argument is a hypothetical one depending on certain conditions. What actually happens in practice depends on the actual number of informed consumers in the market. This is an empirical issue.

To empirically sort out whether inferior or better brands actually prevailed in the market, we conducted a study of 19 individual products and services within the personal computer industry in the 80s and 90s. The next section describes the procedure of getting the relevant measures as well as the analyses conducted to answer the open research questions.

MARKET EVOLUTION IN THE PERSONAL COMPUTER INDUSTRY

Market characteristic and relevant variables

The personal computer products and services markets were selected for the analysis since these are supposed to exhibit strong network effects. Thus, they would generally favor the received wisdom of the superiority of network effects over those of quality. A total of 19 hardware and software products as well as some services were included in the sample. Different platforms, such as PC and Mac, were treated as different product markets. However, the two PC operating platforms, DOS and Windows, which emerged sequentially, were defined as representing one market. In most of these markets, there were usually two or three major competitors at any given time, usually with one dominant brand that often kept changing. Different product categories were tracked for between 4 and 17 years. Table 1 (page 12) provides a list of included product categories as well as some summary statistics like number of brands in each category, the time period and the evolution of market leadership.

The key variables used in the analysis include market share, quality and network effects. Relative prices and market growth were also considered in some analyses.

Quality is defined as the composite of a brand’s attributes, on each of which consumers prefer more to less (e.g. reliability, performance, and convenience). Networks refer to the proportion of prior users of a brand. Efficiency of markets is measured as the best quality brand (after adjusting for prices) emerges with the largest market share. Other factors such as price, advertising, distribution, and market growth might also play a role in these markets, but for most analyses they seemed uncritical in assessing the role of network versus quality. Wherever possible, price data was also collected and controlled for.

The Art of Collecting Data that Does Not Exist

The main challenges of collecting the data needed were the long time period and the qualitative and scattered characteristic of some key variables. The majority of the market share data was taken from IDC (International Data Corporation) and partly from Dataquest. However, even these firms did not have complete or adequate data on a number of categories. In those instances where the data was not available from any syndicated source, other archival sources were used to complement the data.

The quality measure was based on the ratings or reviews in the three most respected and widely circulated computer magazines: PC Magazine, PC/Computing, and PC World plus the leading magazine for Mac products, Macworld. However, since many of the magazines published reviews without numerical ratings, a content analysis of the reviews was necessary to arrive at numerical ratings. First, a set of terms was collected that reviewers often use to describe these products. Then these terms were grouped into five levels expressing increasing quality. Two specifically trained raters analyzed all reviews independently for content and converted the result into a numerical score based on the prevalence of such terms in the review (intercoder reliability 87 %).

In creating a measure for network effects, the repurchase cycle for all markets in the sample was estimated to be about three years. This assessment is based on personal experience, interviews with some senior IT managers, and interviews with some consumers. The information collected indicated that software and hardware is typically upgraded or repurchased within three years. Thus, the relevant network size was measured using the accumulated

market share of a brand in the past three years. Though pricing was not an explicit part of the study, pricing information was necessary as a control variable. The price data was scattered around each issue of magazines in either the articles/features or the ads. Two graduate students located all relevant pricing data for the brands in the sample. Then all the price data was compiled into a meaningful format by brand and averaged per year.

A series of different analyses investigated the personal computer market using the described variables. Some of the key analyses and conclusions of the study are presented below.

EFFICIENCY, QUALITY AND NETWORK EFFECTS IN THE PERSONAL COMPUTER INDUSTRY

If network effects were dominant, an early entrant would dominate a market and one would not see changes in market leadership. So a test of network effects was an answer to this question:

Were Changes in Market Leadership Observed Over the Years?

Indeed, fairly frequent changes in market leadership were observed in the sample. Market leadership rarely rests with a single brand. In a categorical analysis all switches from being sub-dominant to being dominant in either market share or quality were compared pair-wise.

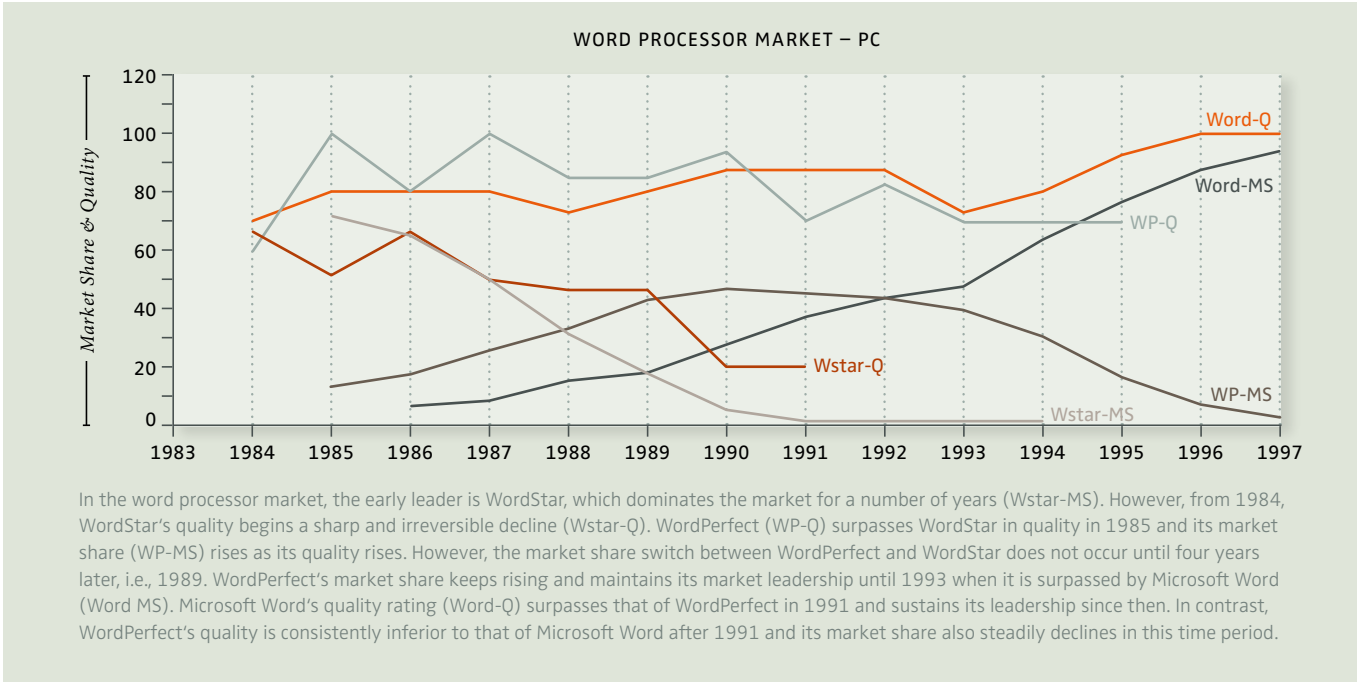
- > In 17 of the 19 markets, at least one switch in market share leadership occurs during an average period of 9.3 years sampled for these markets.
- > The average duration of market leadership ranges from 5.5 years in operating systems to as short as 2 years in web browser. Across all categories examined in this exercise, the average duration for market leadership is only 3.8 years.
- > Further, in 10 of these markets, there are multiple switches in market share.
- > Overall, a total of 34 switches in market share across all the markets were observed.

A simple graphical analysis of markets reveals the same picture: market shares are in a state of constant flux. This observation does not support the existence of simple markets where consumers care only about the network or randomly choose products ignoring network as well as quality. Figure 1 (page 12) gives an overview of these results.

TABLE 1:
Switches in Quality, Market Shares and Market Share Leadership

Markets	Number of Brands	Switches in Quality	Switches in Market Share	Years Taken to Become Market Leader After Quality Switch	Total Years	Switches in Market Share Leadership	Duration of Market Share Leadership
Word Processor	3	3	3	4	14	WordStar, WordPerfect, Word	4.7
Spreadsheet	3	2	2	4	14	Lotus, Excel	7
Internet Service Provider	3	2	3	1	8	Prodigy, CompuServe, AOL	4.2
Personal Finance	3	4	2	2	11	Managing Your Money, Quicken	5.5
Web Browser	3	1	3	1	6	Mosaic, Netscape, Explorer	2
Desktop Publishing (Mac)	3	1	1	4	9	PageMaker, QuarkExpress	4.5
Desktop Publishing (High-end)	3	5	3	0	10	Ventura, PageMaker, QuarkExpress	3.3
Desktop Publishing (Low-end)	3	0	3	No quality switch due to data censoring	7	First Pub, Express Pub, MS Publisher	2.3
Presentation Graphics	3	3	3	1	12	Freelance, Harvard, PowerPoint	4
Operating Systems (PC)	3	6	1	2	11	DOS, Windows	5.5
Operating Systems (Network)	3	1	1	5	5	NewWare, Windows NT	2.5
Word Processor (Mac)	2	1	1	1	12	MacWord, MacWrite	6

FIGURE 1:
Share and Quality Flows in the Personal Word Processor Market



If there are Changes in Market Leadership, are they Related to Quality?

Again, the answer is a clear “yes”. Figure 1 gives an example of the graphical analysis of the word processor market.

The other submarkets show a very similar picture. The market shares of brands appear to rise following the rise in their level of quality. Most switches in quality leadership seem related to and precede switches in market leadership. Hence, quality seems to play an important role in influencing market dynamics. Moreover, these simple graphical plots do not indicate that these markets are perverse. That is, there is no evidence that early market share leaders dominate the market for long or do so if they lose their quality edge for most markets analyzed. Categorical analyses confirmed that out of all the 34 switches in share analyzed, 18 % are related to a switch in quality in the same year, 50 % are related with a switch in quality in prior years and 20 % are related to the sub-dominant brand already having a superior quality to the dominant brand. So, in total, 88 % of the switches are related to the switches or superiority in quality of the sub-dominant brands, but only about 12 % have no relationships to quality changes. In contrast, when there is no switch in share, we see that quality of the inferior brand mostly stays inferior.

Overall, these results provide strong evidence that a superior quality or a switch in quality of a subdominant brand results in a switch in market share over the dominant brand. A *logit analysis* further confirms the link between quality and market share switches and finds the strongest effects of quality switches two years prior to the market share switch.

The results indicate that markets are responsive to quality, as is evidenced by the fact that prior switches in quality significantly increases the probability of a market share switch in the immediate subsequent years. To investigate the strength of the quality effect, a *hazard analysis* of time to market share leadership was also conducted for the data. It shows that the time it takes for the smaller share brand to achieve market leadership is affected positively and significantly by the improvement in quality of the smaller share brand over the larger share brand. The probability of such a switch is much higher when the gap in quality (of the lower share brand over the high share brand) is higher. The leadership duration variable has a negative and significant effect on the probability of market-share switch indicating that a switch in market leadership takes longer in inertial or slow moving markets.

{ Box 1 }

SELECTING APPROPRIATE METHODS TO REVEAL PATTERNS

Logit analysis is a technique which allows the probability of an event occurring or not occurring to be estimated. It predicts a binary outcome (in our case whether there is a switch in market share or not) from a set of independent variables. Only current or previous quality switches were considered as independent variables in this analysis. The relative role of quality and network size differences were not analyzed and differences in product category inertia was also not controlled.

A *hazard analysis* of time to market share leadership can reveal the relative impact of independent variables on how quickly a high quality brands becomes a market leader. The study modeled time to market leadership as a discrete time hazard process influenced by quality gap and relative network sizes while controlling for leadership duration within the market.

Do Network Effects Inhibit a Healthy Market Evolution?

Here, the answer is “no”. An indication for the presence of strong network effects and a perverse market would be the absence of changes in market leadership. This, as outlined before, was not the case here. Another, softer, indication of market efficiency is whether a subdominant brand becomes a market leader within or beyond the average repurchase cycle.

The frame of reference in this study is three years, because prior research indicated that repurchase in this product category happens approximately every three years. Categorical analysis showed that, for web browser, Internet service provider, image management software, presentation graphics, and personal finance, it takes less than three years for a sub-dominant brand to become the new market leader after its quality exceeds that of the dominant brand. For products like word processor, spreadsheet, desktop publishing and network operating systems, the time to attain market leadership was usually longer, e.g., four to five years. These results demonstrate that the markets for the first group of products are highly efficient. Superior products quickly

gain market leadership once their quality dominates that of rivals. The markets for the second group of products are also efficient, albeit markets settle down on superior brands more slowly than the repurchase cycle.

The case of the PC operating system seems a notable anomaly. This product category supposedly exhibits strong network effects, but a superior Windows quickly replaces DOS two years after its quality surpasses that of DOS. One reason for this result is that the quality of Windows is so much better than that of DOS. A sufficient quality gap overwhelms the power of network effects. It again shows that quality rules in these markets and network effects cannot protect the incumbent leaders from competition. However, this advantage may have been facilitated by the backward compatibility of Windows to DOS.

These results make intuitive sense because the first group of products is generally believed to exhibit weaker network effects whereas the second group of products is much more influenced by network effects due to their intrinsic communication or sharing-oriented nature. Hazard analysis confirms some influence of network size on switch in market leadership, but the effect of quality is much stronger.

» Time for market leadership by the smaller share brand is affected positively and significantly by the improvement in quality of the smaller share brand over the larger share brand. «

{ Box 2 }

EFFICIENCY, QUALITY AND NETWORK EFFECTS IN THE PERSONAL COMPUTER INDUSTRY

Summary of Results

- > Markets are efficient in general.
- > Market leadership changes frequently and market leaders hold sway for an average of a mere 3.8 years.
- > Change in market leadership is generally associated with a change in quality the same year or a few years earlier.
- > Both network effects and quality are factors in determining market share, but quality seems more important.
- > Even in the presence of network effects, the market is not inefficient.
- > The presence of network effects enhances the efficiency of the market that derives from a quality conscious segment of consumers.

A CHALLENGE TO PRIOR “RECEIVED WISDOM”

Even if this study is limited to one industry and a limited set of key variables, the results have some important implications for business strategy and public policy and challenge some widespread assumptions on market mechanisms. They apply whenever there is an increase in utility of a product for any one user from more users of the product. Examples are the increase in value of a cell phone, email, or a multi-person game to one person as more people own these products.

Is “rush to market” a right mantra to follow?

As previously discussed, high-tech firms spend enormous resources in rushing new products to market in an attempt to outpace their respective competitors. However, the undeniable truth is that many new products fail. One of the major reasons for

these failures is the premature product launch undertaken by many high-tech managers who rush to market, encouraged by the popular myth of pioneering advantage. The results of this study suggest that superior quality appears to be a very important driver of success and market leadership changes frequently. Thus, companies may need to put a premium on quality rather than on speed to market.

Are network effects a reliable shield for existing leaders?

This study shows that switches in quality consistently result in switches in market share, albeit with a lag of some years. Network effects may delay but do not prevent superior brands taking over the market. On the contrary, even established market leaders, though they enjoy a large network of users, are vulnerable to threats from new entrants that introduce superior alternatives. A network is not a reliable shield on which an existing leader can rely. Constant quality enhancement is an effective way for existing leaders to defend their current positions.

Are network effects responsible for perverse markets?

Network effects have been blamed as the devil that causes market inefficiency, e.g., an inferior product or standard can dominate the market simply because of its large network size. This was not generally observed in this study. In some cases strong networks did slow down the switch in market leadership. However, the study also revealed that networks effects, under certain circumstances, could even make the market more efficient.

If sufficient consumers care about quality, then network effects enhance the role of quality, because other consumers also benefit from the choices of quality-conscious ones. Consequently, the entire market settles on the better products more quickly and at a higher level than it would have in the absence of network effects. In this case, network effects speed the transfer of information from the informed to the uninformed.

Should government act as a substitute for “the invisible hand”?

This study shows that quality drives the success of high-tech giants, even though network effects are present. It seems that markets do settle on the best option while remaining open to better ones. Therefore, high-tech markets are reasonably efficient and rational. Government intervention, which is intended to assume the role of “the invisible hand” in high-tech markets, may be costly and unnecessary. •

FURTHER READING

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KEYWORDS:

Competition, Product Quality, Network Effects, Market Evolution, Market Leadership, Market Efficiency, Computer Industry



CUSTOMER SATISFACTION:
Turning research findings into
Business Action Plans

Richard Matthews

Almost every brand invests in Customer Satisfaction research, but few are seeing effective return from their investment, mainly because they are not getting the Action Planning part of the cycle right. GfK looks at why this is and how companies should approach turning research findings into targeted action plans to ensure positive change can be implemented.

The situation

It's obvious, isn't it? You invest in regular Customer Satisfaction research, to monitor and track how well you are doing from your customers' viewpoint - so, of course, you don't just note the results and leave it there. You make that research investment pay a direct dividend, by turning the key findings into specific, measurable and actionable plans that raise your Customer Satisfaction scores over the next year.

At least, that's how you'd think it would be – especially now, when market downturn means that ROI is more vital than ever. But, too often, companies are failing to get any ROI out of their Customer Satisfaction research, especially if the ratings – as is often the case - are staying relatively flat, so there is nothing obviously 'wrong' to focus on. The findings get shared at a Board meeting, any trends are discussed...and then the group disperses

and no fundamental change gets implemented, and neither does any insight from the findings penetrate deeper into the company.

So why is this? We think it's down to three things: time, money, and hesitation at how to grapple with areas that are doing 'well enough' and which are likely to require a significant effort to change. In fact, successful action planning does not need to be expensive and a half-day workshop with key stakeholders can produce an agreed set of actions needed, set out in a detailed plan, with timelines and a senior figure assigned to each action, to 'own' the activity and drive it forward. For an average investment of roughly \$8000, the return, in terms of seeing positive impact on customer – and employee – satisfaction levels, can be mouth-watering.

Why use an external agency – surely in-house knows best?

Using an external agency to focus your internal team has a distinct advantage – by injecting freshness and scope into a company's action planning, and in being free from company politics or the channelling influence of a particular company's 'accepted' way of thinking. Even better is to use the agency that also produced the research recommendations – as they are already fully up to speed and familiar with all the important issues shaping your market and business objectives. Well, we would say that, wouldn't we? But read on; we have a good case to offer. By bringing in GfK to work with your internal team in facilitating (not dominating) the action planning, you retain control while gaining impartial, unbiased input from experts who offer fresh thinking combined with specialist, external knowledge of your wider market. Our insight consultants will also draw out the best from your internal stakeholders, without undue influence from existing dynamics, making for a more efficient and cohesive end result.

From research findings to focussed business plans: our approach

- 1) Assess findings to identify areas for change - We analyse your Customer Satisfaction results and present up to four recommendations for areas that could improve business performance. We also give:
- » indication of the commercial value of the opportunities and risks for you, by projecting the likely results of each area of change (e.g. 2% higher customer retention opportunity at an average customer lifetime value of \$X)
 - » assessment of likely competitor responses
 - » feasibility of the organisation operationally achieving the actions
- 2) One-day workshop - We then work with you to pull together a team of stakeholders, drawn from across your key internal business areas, for maximum breadth of input. During a one-day workshop, we:
- » present our recommendations for areas needing action, backed by stories from the research findings
 - » bring these areas to life, by presenting case stories and

examples of best practice that put you in the shoes of companies who are winning in these areas

- » facilitate and energise the team in brain-storming these areas, to agree and prioritise the actions needed
- » break down these actions into a clear, scheduled plan including clear responsibilities and timing
- » agree a Senior Management 'owner' for each action, to keep the plan driving forward

Deliverables

Top-level action plan of what needs to be achieved in next 12-24 months

- » Detailed road map for each key action
- » Tools to track progress and keep momentum during the lifespan of the plan, such as 'Blueprint', that allow Senior Management to monitor the progress of key actions and track agreed measures for success.
- » Recommendations on how to communicate the Action Plan within your company
 - » Successes from the action plan should be circulated as they occur.
 - » Regular review of future Customer Satisfaction ratings, customer complaints, sales data and key financials, to monitor the change and what difference it makes.

4) Future proofing your planning - Annual strategic workshops, to map out the big picture perspective and develop plans based on where you see your Customer Experience being in three to five years' time.

Conclusion

Doing Customer Satisfaction research without taking the findings a step further to develop focused action plans is like filling your car with expensive fuel, but then never running the engine. But it's not just powering up the engine that counts – it's the route you choose to take your vehicle down; and that is where involving an outside expert delivers the focus, fresh thinking and follow-through that internal teams alone often struggle to replicate.

CO-CREATION AND CROWD-SOURCING: A POWERFUL TOOL FOR NEW PRODUCT DEVELOPMENT

Laura Stockwell

Case study: How GfK uses customer ideas to help develop realistic and appealing new products



Crowd sourcing can produce a rich pool of exciting product concepts, as the unfettered thinking and creative time that consumers enjoy means that they often come up with more innovative designs. Plus you're getting NPD ideas that the consumers themselves have already endorsed as a good concept. But how do you balance desirable innovation against keeping the ideas realistic, and how do you spot the winning ideas? The answer is by combining crowd-sourcing, co-creation and standardised product testing.

Using crowd-sourcing in technology NPD

A recent crowd-sourcing study, run by GfK in partnership with co-creation community eYeka.com, recently asked consumers to imagine their "ideal communication technology of the future". Participants had the freedom to create a new device, a new service for an existing device, a piece of software or an application. Their solution could be designed to make their lives easier, more fulfilling, more productive, or just more fun – the only limit was that it had to be something that could conceivably exist in the next five years.

Common themes reveal consumer needs

Providing a broad brief ensured that we received an array of ideas, but even so, some common themes were found amongst the entries. These reiterated themes illustrate consumer frustrations with current devices and lifestyles, helping to give clear direction to manufacturers on what needs are still not being met in the market:

- » All-in-one devices that integrate payment, keys and other gadgets into typical smartphone functionality
- » Slim devices, where the interface would be a clear, thin screen that could be disposable / easily replaceable
- » Translation into other languages on the go (including into sign-language) via speaking into a microphone
- » Remote working/ presence
- » Holograms – either a projection of the handset display, or as virtual video



As well as the unique, yet realistic ideas, co-creation can also generate more ‘idealistic’ approaches, which can help to stretch the minds of designers and researchers alike. For example:

- » Telepathy or communication wired directly to a user’s brain
- » Teleportation – of objects or even persons
- » Solar powered devices were also a popular mention, as current handsets draw heavily on battery life and the shift towards greener lifestyles continues.

Clearly this innovative research approach can be used to help technology brands develop unique product concepts that resonate strongly with consumers’ current needs and wants.

Identify the successful concepts through TechTest
Creating innovations in a theoretical space is fair enough, but product developers need to identify how appealing and believable concept ideas would be in practice. To answer this, we

» As well as the unique, yet realistic ideas, co-creation can also generate more ‘idealistic’ approaches, which can help to stretch the minds of designers and researchers alike «

took four of the concept ideas – those with the greatest potential – and ran them through GfK TechTest. This standardised methodology, including a visual storyboard for greater validity, tests new technology products, benchmarking them against key measures for appeal and likely success.

The concepts selected for testing were:

- » A music sharing service, whereby users can share what they’re listening to with other users near to them, by streaming their music wirelessly
- » An all-in-one mobile that integrates keys, credit, debit, loyalty and ID cards, as well as typical smartphone functionality – mp3 player, e-book reader, camera, games, internet, apps, and of course, calls and texts
- » A hologram phone that attaches to your wrist like a watch and can be controlled with a stylus with information projected onto any chosen surface
- » A ‘brain centre’ mobile phone system with remote touch screen. In this concept, all data is stored in a small ‘brain centre’ which is attached to your person, in a ring or watch, and accompanied separately by an easily and cheaply replaceable touch screen

GfK TechTest identified the all-in-one mobile device as the concept likely to be the most successful, proving it to be both appealing and easy to understand amongst consumers. It also met the

» Co-creation helps manufacturers identify and understand needs and desires in the market, producing current, realistic product solutions as well as more futuristic ideas «

current consumer problem of many of us having several electronic gadgets, showing the need for integrated devices.

Naturally, Early Adopters found these technologies most appealing and men were particularly interested in the all-in-one-device – having to carry around less in their pockets most likely being the key motivator. However, this benefit is also the biggest drawback, with concerns of losing everything in one go and the security risk associated with it.

The winning “all-in-one device” proposition bodes well for smartphone manufacturers, as we’ve seen in the leader article, mobile payments are likely to take off this year, with many new handsets equipped to be used as a method of payment via near field communication.

Co-creation is a powerful NPD tool that taps into the creativity of social media in a socialised panel space at the early stages of the NPD process. It helps manufacturers identify and understand needs

and desires in the market, producing current, realistic product solutions as well as more futuristic ideas. While holograms and teleportation may be beyond our current capabilities, or remain forever in the realms of Star Trek, consumers often produce useable innovations that manufacturers’ more restricted product view wouldn’t have considered. By developing these ideas and benchmarking them against known success criteria, we can pinpoint the product concepts that are believable, actionable and desirable.

Sources

As a joint venture with eYeka, GfK posted a design brief on their website for a ‘communications innovation’. eYeka panel members were invited to contribute any entries from 28 September to 12 October 2010, in the format of video, pictures or PowerPoint. Of the 67 entries submitted, 11 winners were chosen of which 3 were further developed into tangible concepts and standardised stimuli. These were tested quantitatively using GfK TechTest via online methodology from 13 to 20 December 2010.

INSIDE GfK

Keeping you up to date with some of the activities that have been keeping us busy in recent months, as well as letting you know about new initiatives and across the company.

Strong financial performance for GfK in 2010

In 2010, the GfK Group achieved its highest income in the company's 76-year history. At 14.3%, the margin reached a new peak. Sales increased by 11.1% to a record value of \$1,864 million.

In financial year 2010, all three GfK sectors were able to increase their sales. The Custom Research and Retail and Technology sectors recorded considerable income growth and the Retail and Technology sector again improved its already very high margin. Sales increases were achieved in all regions, and were particularly strong in the growth regions of Latin America, Central and Eastern Europe, and Asia and the Pacific.

Professor Dr. Klaus L. Wübbenhorst, CEO of the GfK Group, remarked: "2010 was an excellent year for GfK and we have emerged from the crisis year of 2009 in a stronger position than before. Sales and income have reached new record values and the dividend will also be the highest in our company's history."

Assuming a sustained economic upturn, GfK expects organic growth in sales of around 5% to 6% for financial year 2011, based on the companies included in the scope of consolidation at the start of the year.

In future, the focus will continue to be on GfK's consistent international orientation and its expansion in growth markets. The standardisation of methods, software and survey content, and synergies across the sectors, will also be further advanced.

Germany: GfK increases stake in SirValUse and nurago

With effect from the start of 2011, GfK has increased its stake in the German companies SirValUse and nurago by 20%, bringing the total shares in each to 60%.

SirValUse was founded in May 2000 and is Europe's largest consulting company in the area of user experience and usability. SirValUse investigates and optimizes the user friendliness, utility value and design of websites, software, consumer electronics, mobile applications, end devices and industrial manufacturing technology. nurago is one of the leading suppliers of technology for digital brand, media and usability research.

GfK and nurago have already achieved their first successes with the collaborative development of the GfK Media Efficiency Panel in Germany and the Netherlands, which enables detailed analysis of the effect of cross-media advertising campaigns on the actual purchasing behavior of consumers. In addition, new products for the GfK Group's digital research have been developed under the umbrella brand "GfK .dx solutions".

Together, SirValUse and nurago employ around 100 members of staff in the German locations of Hamburg, Hanover, Berlin, Munich, as well as in London and Beijing. The companies continue to be run by their founders, Tim Bosenick, Torsten Müller and Thomas Knauer. Clients include numerous international companies from the service, retail and industrial sectors, such as Google, Deutsche Telekom, OTTO, eBay, LG and Samsung.



Jing Shen, GfK Boutique Head of Research for TVs and Displays, speaking in Taipei

Taiwan: GfK Boutique Research forum for tech companies

In January, GfK Boutique Research welcomed 20 Taiwanese technology companies to its Technology Demand-Supply Forum in Taipei.

Under the banner "Demand drivers are changing – is the supply chain ready?" GfK's international analysts presented their latest conclusions, combining analysis of the current demand for consumer technology devices with long-range forecasts and supply chain measurements. For example, they forecast that, as a result of the booming tablet PC market, 2011 demand for DRAM PC storage will increase by 35% compared to 2010. In contrast, 2011 Global LCD TV end-demand growth is forecast to fall to only 8%, down from 30% in 2010, meaning the LCD supply-chain should brace for lower outputs.

This event represents the latest stage in a continuing effort by GfK Boutique Research to build a global network of contacts within the technology supply chain, as a key step to being able to identify imbalances between supply and demand that result in inventory shortage or excess.

Based in the USA and with offices also in London, Paris, and Hong Kong, GfK Boutique Research is a subsidiary of GfK's Retail and Technology sector. It offers clarity on the changing nature of demand and how supply should meet it, by analyzing GfK retail data on durable consumer goods within the context of external information.



Left to right: Marian Gyarmathy & Anette Bendzko, making themselves at home in the new Seattle office.

Business & Technology team in Seattle

GfK Business & Technology recently celebrated the opening of a new office in Bellevue, Seattle. After the San Francisco Technology team this is the second tech team on the West Coast.

Anette Bendzko, Global Head of Business & Technology is now based in Seattle and she has been joined by Marian Gyarmathy, who comes equipped with a strong background in Brand and Communications and previously spent 10 years with Harris Interactive.

New Brand & Communications director



GfK Business & Technology recently appointed Iain Stanfield (left) as Brand and Communications Director. Based in the UK, Iain will lead our Brand and Communications thinking within Business and Technology.

As well as working at Millward Brown for two years, taking care of brand and tracking studies for some major blue chip clients, Iain has worked in research related roles for over 20 years, including five years as a strategic planner at advertising and brand agency Ogilvy & Mather.

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