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Are You Ignoring Trends That Could Shake Up Your Business?

by Elie Ofek and Luc Wathieu

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Idea in Brief

Trends, including those that seem peripheral, change consumers' aspirations, attitudes, and behaviors in ways that may not be obvious. The digital revolution, for instance, has led people to value offerings that provide instant gratification and help them multitask. This is as important for a company that sells sports shoes as it is for one that sells video games.

There are three strategies for addressing the impact of trends:

Infuse aspects of the trend into the category to **augment** traditional offerings, as Coach did with its lower-priced, youthful Poppy handbags.

Combine aspects of the trend with attributes of the category to produce radical offerings that **transcend** the category, as Nike did with its Nike+ sports kit and web service.

Counteract negative effects of the trend by developing products and services that **reaffirm** the category's values, as iToys did with its ME2 video game, which encourages children to be physically active.

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It's hardly a revelation that digital products and services are playing an increasingly central role in consumers' everyday lives, that the Great Recession has made people more cautious about spending money, and that growing public concern about global warming is influencing purchasing decisions. But are you paying enough attention to the deeper implications of those trends? Are you accounting for the fact that heavy users of digital products and services tend to focus more on short-term goals, demand immediate gratification, expect to multitask, and are open to exchanging ideas with people they've never met in person? Or that the prolonged recession has unleashed not a malaise but rather a desire to be uplifted and energized? Or that green consumers are skeptical of corporations that claim to share their concerns but don't motivate them to act in environmentally friendly ways?

Most managers can articulate the major trends of the day. But in the course of conducting field and market research in a number of industries and working directly with companies, we have discovered that managers often fail to recognize the less obvious but profound ways these trends are influencing consumers' aspirations, attitudes, and behaviors. This is especially true of trends that managers view as peripheral to their core markets.

Consequently, they ignore trends in their innovation strategies, they include product features that only superficially address a trend's impact on consumers, or they adopt a wait-and-see approach and let competitors take the lead. At a minimum, such responses result in missed profit opportunities or wasteful investments in R&D. At the extreme, they can jeopardize a company by ceding to rivals the opportunity to transform the industry. The purpose of this article is twofold: to spur managers to think more expansively about how trends could engender new value propositions in their core markets, and to provide some high-level advice on how to make market research and product development organizations more adept at analyzing and exploiting trends.

The Gold in Trends

At first blush, spending a lot of resources to incorporate elements of a seemingly irrelevant trend into one's core offerings sounds like it's hardly worthwhile. But consider Nike's move to combine its reputation in high-performance athletic footwear with the iPod's meteoric success. In 2006, the company, which accounts for the largest share of running shoes sold in the United States, teamed up with Apple to launch Nike+: a digital sports kit comprising a sensor that attaches to your running shoe and a wireless receiver that connects to your iPod. As you jog and listen to your favorite music, the sensor tracks your speed and distance and the calories you've burned, and transmits that information to your iPod in real time. Back at your computer, you can upload your data to nikeplus.com, which stores your information and provides a user-friendly interface that lets you track your progress.

The kit also allows you to specify a goal and check your performance during your run simply by pressing the iPod's center button. In addition, the website links to social networks like Facebook and Twitter so that you can find and form groups of runners at your level who are interested in sharing challenges and performance information. Nike is now expanding the kit to other athletic activities: It recently launched a version for gym workouts.

So far Nike+ has been a big success. More than 2.5 million kits have been sold, many of them to people who also purchased Nike shoes that have a special recess to house the sensor. Considering that the sports kits retail for about $30 and the shoes for an average of $80, this is no small change.

But the Nike+ story is about much more than the revenues generated from product and accessory sales. What is fascinating is how the new offering catapulted Nike from being relevant to just one aspect of the runner's exercise regime to being at the very center of it. For a Nike+ customer, the Nike brand is no longer about just the product attached to his or her feet; it's about the total exercise experience, including the community.

The Nike+ example represents one of three broad innovation strategies that firms can embrace to address powerful trends. They can *infuse* aspects of the trend into their existing category to *augment* their products or services. They can *combine* aspects of the trend with attributes of their category to produce radical offerings that *transcend* their traditional category and create a new one (as Nike did). Or they can *counteract* negatively perceived effects of the trend by developing products and services that *reaffirm* their category's distinctive values.

Infuse and Augment

The objective of this strategy is to design a new product or service that retains most of the attributes and functions of traditional products in the category but adds others that address the needs and desires unleashed by a major trend. Put simply, this strategy is about augmenting the existing category, not inventing a totally new one. A case in point is the Poppy line of handbags, which Coach created in response to the economic downturn.

By the time the global recession hit Coach's core North American market with full force, late in 2008, the Coach brand had been a symbol of opulence and luxury for nearly 70 years. For $300 to $350, the price of a typical Coach handbag, a woman could signal to the world that she belonged to the elite. The company's consistent execution of this value proposition (through product design, advertising, store layout, and location) fueled a steady rise in sales through much of the past decade. But in the summer of 2008, management had to decide how to respond to the global downturn and the resulting increase in price sensitivity.

The knee-jerk reaction would have been to lower prices on most products and perhaps shift more sales to outlet stores. However, those actions would have risked cheapening the brand's image and eroding the company's meticulously established value proposition. They would have constituted a superficial response to the downturn's likely enduring impact on consumers' expectations and perceptions.

To their credit, Coach's managers did not panic. Instead, they launched a consumer-research project, which revealed that a decreased willingness to spend money was only a small piece of a new mind-set. People had not lost hope or become passive about the future because of economic woes, the gloomy financial outlook, and general uncertainty; on the contrary, they were eager to find ways to lift themselves and the country out of tough times. An attitude of "Yes, we can" had set in. Consumers' desire for status and pampering had not vanished, but the economic reality had created a new layer of needs.

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Using these insights, Coach created the lower-priced Poppy line, which it launched in June 2009. The handbags, which sell for about $250, come in vibrant colors and are much more youthful and playful than traditional Coach products. The company's name appears on the bags but is written in graffiti style.

The Poppy line is off to a great start: It helped lift Coach's North American same-store sales by 3.2% in the second quarter of fiscal year 2010, the first increase since the crisis began. Creating the sub-brand allowed Coach to avoid an across-the-board price cut. In contrast to the many companies that responded to the recession by cutting the cost, features, and price of existing products, Coach saw the new consumer mind-set as an opportunity for innovation and renewal.

Another example of the infuse-and-augment strategy is Tesco's response to consumers' growing concerns about the environment. Market research shows that a large proportion of consumers, especially in Europe, have become receptive to the call to save the planet. They want to do their share but are somewhat skeptical of corporations that claim to care about being green. In addition, they often believe that green consumption should lead to a simpler, more economical life.

With that in mind, Tesco, the third-largest retailer in the world, introduced its Greener Living program, which demonstrates the company's commitment to protecting the environment by involving consumers in ways that produce tangible results. For example, Tesco customers can rent company-sponsored plots for gardening and coops for raising egg-laying chickens, and can accumulate points for such activities as reusing bags, recycling cans and printer cartridges, and buying home-insulation materials. Like points earned on regular purchases, these green points can be redeemed for cash. Tesco has not abandoned its traditional retail offerings. Instead, it has augmented its business with these activities, thereby infusing its value proposition with a green streak.

Combine and Transcend

This strategy is more radical than the infuse-and-augment approach. It entails combining aspects of the product's existing value proposition with attributes that address the aspirations, attitudes, and behaviors arising from a trend to create a novel experience—one that may land the company in an entirely new market space.

By combining Nike's original value proposition for amateur athletes with one for digital consumers, the Nike+ sports kit and web interface has moved the company from a focus on athletic apparel to a new plane of engagement with its customers. Yes, shoes are still an essential component of the value proposition, and yes, Nike still caters to many of the same consumer aspirations it always has (the desire to achieve, perform, and win). But Nike+ provides an experience that is as much about managing one's goals in a personalized, efficient, interactive, and real-time fashion as it is about aspiring to be like Michael Jordan or Roger Federer.

Another company that has transcended a traditional category by tapping the digital trend is stickK.com. Americans who want to lose weight spend more than $40 billion a year on pills, diet shakes, books, and programs like Jenny Craig and Weight Watchers. But spending money is relatively easy; the challenge is remaining committed to a regimen. The same is true of programs designed to help people overcome other unhealthy habits, such as smoking and excessive drinking.

The founders of stickK.com—two Yale professors and a student at Yale's School of Management—understood not only the challenge of overcoming bad habits but also that connecting with others and sharing personal thoughts and activities on digital platforms had become the norm. The service they launched in 2008 reflects that insight.

As a user of stickK.com, you articulate a personal goal (for example, "I will shed one pound every week until I lose 20 pounds") and demonstrate your commitment to it by

New Value Propositions

Coach's Poppy Collection

Yes, the recession has made consumers more cautious about spending. But after discovering that the downturn has also unleashed a desire to be energized and inspired, Coach created its lower-priced and playful Poppy line of handbags.

Nike+

Nike's insights into how the heavy use of digital products and services was changing consumers' attitudes and behaviors led it to team up with Apple to create the Nike+ sports kit and web service—an offering that transcends Nike's traditional sports apparel category.

iToys' ME2

Canada's iToys addressed parents' concerns that video games were turning their children into couch potatoes by launching the ME2, a handheld game with a pedometer that awards superior virtual skills to kids who get physical exercise.

Ignoring trends can give rivals the opportunity to transform the industry.

signing a contract. As you work toward your goal, you post regular entries, which are monitored by a friend or relative you've designated as your referee. The website allows you to create an incentive to fulfill your goal. One option is to form a network of friends who will immediately be notified by e-mail if you violate the terms of your contract. Another is to bet on yourself: You decide on a wager and to whom the money should go if you fail to achieve a milestone. Some people designate a charity or cause that they oppose—a pro-choice or pro-life group, for example, or an institution associated with a political party, such as the Bush or Clinton presidential library. You supply your credit card information through a secure online form, and if you fail to fulfill your contract, the transaction is executed automatically.

As of the start of 2010, stickK.com had nearly 40,000 active contracts and more than $4 million in wagers. Weight loss accounts for nearly 45% of the contracts, but stickK allows individuals to specify any goal—from getting an A on an upcoming exam to "not playing online Scrabble again until the end of the year." The company has ushered in a new era of electronic accountability.

Counteract and Reaffirm

This approach involves developing products or services that emphasize the values traditionally associated with the category in ways that allow consumers to oppose—or at least temporarily escape from—the aspects of trends they view as negative. A product that accomplishes this is the ME2, a handheld video game created by Canada's iToys. By reaffirming the toy category's association with physical play, the ME2 counteracts some of the widely perceived negative impacts of digital gaming devices.

One is the unhealthy lifestyle these devices seem to engender. American fourth-grade boys spend an average of about 10 hours a week playing video and computer games. Many researchers have found that such behavior usually comes at the expense of physical activity and interactions with other children, leading to a host of medical, developmental, and social problems. For example, video games and other digital products have been blamed for contributing to the alarming growth in obesity among children, which has been linked to a sharp rise in diseases such as diabetes and high blood pressure.

The ME2, introduced by iToys in mid-2008, caters to kids' huge desire to play video games while countering the negatives. Like other handheld games, the device features a host of exciting interactive games, a full-color LCD screen, and advanced 3D graphics. What sets it apart is that it incorporates the traditional physical component of children's play: It contains a pedometer, which tracks and awards points for physical activity (walking, running, biking, skateboarding, climbing stairs). The child can use the points to enhance various virtual skills needed for the video game. The more physical activity a child engages in, the greater his or her advantage in the game.

The Current Card, a prepaid debit card for teens, is another example of the power of a counteract-and-reaffirm approach. This new financial tool is Discover's response to the challenge of parenting teenagers in an age when they have much more freedom than they used to, in part because of digital technologies. The card is also the company's attempt to counter two negative aspects of the digital revolution that can spell trouble for teens: the risk of out-of-control shopping, particularly online, and the false sense of expertise that can result from the abundance of information available on the internet. Teens, like adults, are prone to believe they know more than they actually do about many topics. For example, in a 2008 survey of teens aged 12 to 17, 79% said that they were knowledgeable about basic financial concepts—but the average score of a Federal Reserve Board test of financial literacy given to high school seniors is 48%. This false confidence, combined with the lure of online offerings, can make it very difficult for parents to instill in their children a sense of financial responsibility. Discover has stepped up to this challenge with the Current Card, which lets parents control their children's expenditures (whether online or in bricks-and-mortar stores) by specifying how the card can be used. Through a web interface, parents can track every transaction and receive e-mail notifications if any activity breaks the rules. With this product, Discover not only gives parents a new tool for developing their teens' personal-finance savvy but also reaffirms its core business of facilitating convenient yet responsible spending.

A Four-Step Process for Addressing Trends

To tap a profound consumer trend, you'll need audacity and imagination: audacity to consider that the fight against terrorism might influence computer design, that there could be a lipstick specially suited to the digital age, that the fear of global warming might inspire new kitchenware; and imagination to conceive innovations that compellingly augment, transcend, or reaffirm your existing category. Here is a four-step process that we have successfully applied at a number of companies.

1. Identify trends that matter. The obvious first step is identifying the trends, particularly the seemingly peripheral ones, that have the potential to reshape your business. At any point, only a handful of big trends are capable of changing consumers' aspirations, attitudes, and behaviors. Our simple exercise can help you gauge whether certain forces or events constitute a trend worth leveraging. It involves analyzing the following:

Ripple effects. Are changes occurring in multiple areas of a consumer's life? For instance, consider how social networks like Facebook and LinkedIn are affecting both friendships and professional relationships.

Impact. How profound are the changes in people's priorities, perceptions of their role in society, and expectations?

Scope. Does the trend encompass a large number of consumers across market segments?

Endurance. Are there indications that these changes will be a dominant force in consumer behavior for an extended period?

The concern about global warming and the environment is an example of a consumer trend that passes these tests. People try to save paper and electricity at work and at home and look for natural ingredients when deciding which foods, cosmetics, and furniture to purchase. Many firms have made green marketing tactics a priority and have appointed corporate sustainability officers. Millions of people have seen Al Gore's movie *An Inconvenient Truth*. The number of people who use multiple recycling bins has increased dramatically. More and more consumers now show up at supermarkets with reusable shopping bags. All these developments indicate that environmental concerns have become deeply embedded and will endure.

Identifying trends requires avoiding some common traps (see the sidebar "Why Firms Fail to Leverage Trends") and devoting resources to exploring changes occurring outside one's turf. One option is to create an internal group to do this. Nokia, for example, has an Insight and Foresight team charged with analyzing shifts in consumer tastes not necessarily related to preferences in cell-phone technologies. A firm can also hire a market research or management consulting firm that tracks trends and analyzes their effects (see "The 10 Trends You Have to Watch," HBR July–August 2009).

Why Firms Fail to Leverage Trends

Tracking trends is one thing. Making sure your product development group takes them seriously and integrates them appropriately is another. Our research has found that three traps can prevent firms from constructively engaging important consumer trends.

1. Ignoring trends that originate outside their markets. Most firms naturally think of themselves as offering products within defined categories. ("We are an athletic apparel company." "We make cosmetics." "We design luxury handbags.") This often directs innovation efforts toward customer needs that have been considered relevant in the category. Even when firms look for latent or new needs, their aim is often to uncover the shortcomings of existing products—not to come up with new offerings that incorporate consumer behavior from distant areas. The result: They miss out on opportunities presented by trends that seem peripheral. In running shoes, for example, if market research explores only consumers' attitudes about shock absorption, durability, and rapid acceleration, the company will fail to consider how digital behaviors lead to new experiences that transcend the category.

2. Responding to a trend in a superficial way. Trends are widely noticed: They are covered in the media and may directly affect a firm's employees and core customers. This can prompt R&D and marketing professionals to try to respond too quickly—before the company has developed a deep understanding of how the trend is affecting consumers. The result: ill-conceived offerings that don't speak to consumers' new needs or desires and often dilute, rather than enhance, the brand's equity. Consider the flop of Xelibri 6, a smartphone for women created by Siemens that contained two mirrors and was designed like a makeup compact—but could not actually hold makeup. The rise of digital media has prompted consumers to seek products that allow them to multitask, but Siemens didn't appreciate that people expect such products to deliver this benefit in substance, not just in form.

3. Waiting too long. Putting off action can be as risky as responding too quickly. Given the uncertainty about the relevance of a trend and the risks of incorporating it incorrectly, many firms choose to let other firms take the lead in experimenting. Their rationale is that if a competitor comes up with a significant innovation, they can follow quickly. Although a fast-follower strategy sometimes works, it holds dangers. For example, first movers often lock up valuable assets. A case in point: Nike was able to secure a partnership with Apple to co-create Nike+, a sports kit and web service that allows runners to track their performance with their iPods and share information with others. Given the iPod's popularity among joggers, a firm that now seeks to enter the new space faces an uphill battle.

It takes audacity to consider that the fear of global warming might inspire new kitchenware.

2. Conduct two separate explorations. The next step involves two completely distinct deep dives. The first is into the less obvious effects of the trend: What important goals, beliefs, and perceptions are emerging among consumers? Are people developing new assumptions about social roles and interactions? The second exploration is of consumers' perceptions and behaviors related to your product category. Various research techniques (open-ended questionnaires, discussion groups, diaries, and interviews of lead users) can help with this analysis.

Consider the case of a beauty-care company that wants to leverage the digital lifestyle trend. A study of heavy users of digital devices might reveal that they expect information about almost anything to be readily available, seek to control and customize experiences, and love to share often mundane events with others in real time. An analysis of the beauty-care category might show that consumers see an imperfection such as a blemish or wrinkle as a weakness and want to associate with products that help them attain socially respected outcomes such as a promotion at work, a higher salary, and prestige.

In conducting this exercise, companies should also probe for undesired outcomes and deficiencies related to the trend and to the existing category. For example, being "always on" and available on social network sites generates strong ambivalent feelings: People struggle between wanting to know what their friends are up to at all times and wanting some privacy. And a consumer who buys beauty-care products often finds it difficult to obtain reliable information about which product is a good match for her skin type; as a result, she might waste money and time experimenting with multiple products.

3. Compare the results. Once you have a comprehensive understanding of the most important aspects of the consumer trend and of your product category, it is time to envision how key aspects of the trend might relate to key aspects of the consumption experiences in your category. You might discover a great deal of congruence, a disconnect, or perhaps even a latent conflict between your category and the trend you are trying to engage.

For example, a primary goal of beauty-care consumers is enhancing their self-esteem. They might turn to a product to help them look successful, gain the respect of others, and mask their physical flaws. Consumers expect cosmetics brands to deliver products that help them achieve an ideal standard of beauty (often represented by a celebrity or a supermodel) and offer skin-care products to reduce wrinkles and conceal blemishes.

Self-esteem is also a central theme in digital experiences, but it is achieved in entirely different ways in this domain than it is in beauty care. In their digital activities, individuals develop self-esteem by expressing their uniqueness and interacting with others who can appreciate their distinct profiles. Thus, while consumers in both the trend and product-category domains share the goal of self-esteem, there's a disconnect: Beauty-care companies traditionally help them reach ideal standards of beauty, whereas digital tools enable them to cultivate unique profiles.

4. Isolate potential strategies. Once you have gained perspective on how important concepts pertaining to your category interact with vital trend-related changes in consumer attitudes and behaviors, you can determine which of our three innovation strategies to pursue. When your category's basic value proposition continues to be meaningful for consumers influenced by the trend, the infuse-and-augment strategy will allow you to reinvigorate the category. If analysis reveals a growing disconnect between your category and consumers' new focus, your innovations need to transcend the category to integrate the two worlds. Finally, if aspects of the category clash with undesired changes emerging from a trend, there is an opportunity to counteract those changes by reaffirming the core values of your category.

Trends—technological, economic, environmental, social, or political—that affect how people perceive the world around them and shape what they expect from products and services present firms with unique opportunities for growth. But firms need to learn how to ride a trend's wave to success. If they don't, they risk being swept away by its powerful tide.

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