CUSTOMER LOYALTY IS OVERRATED

FOCUS ON HABIT INSTEAD. A THEORY OF CUMULATIVE ADVANTAGE BY A.G. LAFLEY AND ROGER L. MARTIN

PHOTOGRAPHY BY BRUCE PETERSON

WHAT'S IN AN ICON?

The Instagram icon on the right was vilified by the online community, which had become used to the one on the left. Instagram made the change out of a mistaken belief that the image of a traditional camera was not relevant for users who had never owned one.

Late in the spring of 2016 Facebook's category-leading photo-sharing application, Instagram, abandoned its original icon, a retro camera familiar to the app's 400-million-plus users, and replaced it with a flat modernist design that, as the head of design explained, "suggests a camera." At a time when Instagram was under a growing threat from its rival Snapchat, he offered this rationale for the switch: The icon "was beginning to feel…not reflective of the community, and we thought we could make it better."

The assessment of *AdWeek,* the marketing industry bible, was clear from its headline: "Instagram's New Logo Is a Travesty. Can We Change it Back? Please?" In *GQ*'s article "Logo Change No One Wanted Just Came to Instagram," the magazine's panel of designers called the new icon "honestly horrible," "so ugly," and "trash," and summarized the change thus: "Instagram spent YEARS building up visual brand equity with its existing logo, training users where to tap, and now instead of iterating on that, it's flushing it all down the toilet for the homescreen equivalent of a Starburst."

It's too soon to tell whether the design change will actually have commercial consequences for Instagram, but this is not the first time a company has experienced such a reaction to a rebranding or a relaunch. PepsiCo's introduction of its aspartame-free Diet Pepsi was—like the infamous New Coke debacle—a botched attempt at reinvention that resulted in serious revenue losses and had to be reversed. The interesting question, therefore, is: Why do well-performing companies routinely succumb to the lure of radical rebranding? One could understand the temptation to adopt such a strategy in the face of disaster, but Instagram, PepsiCo, and Coke were hardly staring into the abyss. (It's worth noting that Snapchat, whose market share among young users is now particularly strong, has assiduously stuck to its familiar ghost icon. Full disclosure: A.G. Lafley serves on the board of Snap Inc.)

The answer, we believe, is rooted in some serious misperceptions about the nature of competitive advantage. Much new thinking in strategy argues that the fast pace of change in modern business (perhaps nowhere more obvious than in the app world) means no competitive advantage is sustainable, so companies must continually update their business models, strategies, and communications to respond in real time to the explosion of choice that ever more sophisticated consumers now face. To keep your customers—and to attract new ones—you need to remain relevant and superior. Hence Instagram was doing exactly what it was supposed to do: changing proactively.

That's an edgy thought, to be sure; but a lot of evidence contradicts it. Consider Southwest Airlines, Vanguard, and IKEA, all featured in Michael Porter's classic 1996 HBR article "What Is Strategy?" as exemplars of long-lived competitive advantage. A full two decades later those companies are still at the top of their

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respective industries, pursuing largely unchanged strategies and branding. And although Google, Facebook, or Amazon might stumble and be crushed by some upstart, the competitive positions of those giants hardly look fleeting. Closer to home (one author of this article is part of the P&G family), it would strike the Tide or Head & Shoulders brand managers of the past 50 years as rather odd to hear that their half-century advantages have not been or are not sustainable. (No doubt the Unilever managers of long-standing consumer favorites such as Dove soap and Hellmann's mayonnaise would feel the same.)

In this article we draw on modern behavioral research to offer a theory about what makes competitive advantage last. It explains both missteps like Instagram's and success stories like Tide's. We argue that performance is sustained not by offering customers the perfect choice but by offering them the easy one. So even if a value proposition is what first attracted them, it is not necessarily what keeps them coming.

In this alternative worldview, holding on to customers is not a matter of continually adapting to changing needs in order to remain the rational or emotional best fit. It's about helping customers avoid having to make yet another choice. To do that, you have to create what we call *cumulative advantage.*

Let's begin by exploring what our brains actually do when we shop.

CREATURES OF HABIT

The conventional wisdom about competitive advantage is that successful companies pick a position, target a set of consumers, and configure activities to serve them better. The goal is to make customers repeat their purchases by matching the value proposition to their needs. By fending off competitors through ever-evolving uniqueness and personalization, the company can achieve sustainable competitive advantage.

An assumption implicit in that definition is that consumers are making deliberate, perhaps even rational, decisions. Their reasons for buying products and services may be emotional, but they always result from somewhat conscious logic. Therefore a good strategy figures out and responds to that logic.

But the idea that purchase decisions arise from conscious choice flies in the face of much research in behavioral psychology. The brain, it turns out, is not so much an analytical machine as a gap-filling machine: It takes noisy, incomplete information from the world and quickly fills in the missing pieces on the basis of past experience. Intuition—thoughts, opinions, and preferences that come to mind quickly and without reflection but are strong enough to act on—is the product of this process. It's not just what gets filled in that determines our intuitive judgments, however. They are heavily influenced by the speed and ease of the filling-in process itself, a phenomenon psychologists call *processing fluency.* When we describe making a decision because it "just feels right," the processing leading to the decision has been fluent.

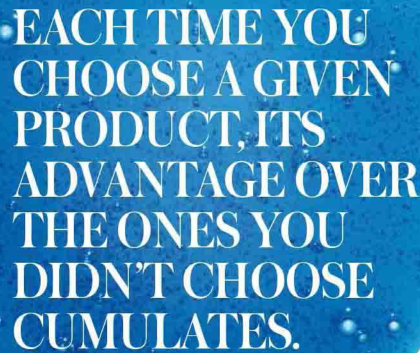
Processing fluency is itself the product of repeated experience, and it increases relentlessly with the number of times we have the experience. Prior exposure to an object improves the ability to perceive and identify that object. As an object is presented repeatedly, the neurons that code features not essential for recognizing the object dampen their responses, and the neural network becomes more selective and efficient at object identification. In other words, repeated stimuli have lower perceptual-identification thresholds, require less attention to be noticed, and are faster and more accurately named or read. What's more, consumers tend to prefer them to new stimuli.

IN BRIEF

THE PROBLEM
Product innovations often flame out on launch, despite tremendous efforts to make them attractive, relevant, and up-to-date.

WHY IT HAPPENS
Customers don't want to spend the mental energy needed to choose between products.

THE SOLUTION
To strengthen customers' habits, innovations should represent a progression of the brand rather than a break with the past.



In short, research into the workings of the human brain suggests that the mind loves automaticity more than just about anything else—certainly more than engaging in conscious consideration. Given a choice, it would like to do the same things over and over again. If the mind develops a view over time that Tide gets clothes cleaner, and Tide is available and accessible on the store shelf or the web page, the easy, familiar thing to do is to buy Tide yet another time.

A driving reason to choose the leading product in the market, therefore, is simply that it is the easiest thing to do: In whatever distribution channel you shop, it will be the most prominent offering. In the supermarket, the mass merchandiser, or the drugstore, it will dominate the shelf. In addition, you have probably bought it before from that very shelf. Doing so again is the easiest possible action you can take. Not only that, but every time you buy another unit of the brand in question, you make it easier to do—for which the mind applauds you.

Meanwhile, it becomes ever so slightly harder to buy the products you didn't choose, and that gap widens with every purchase—as long, of course, as the chosen product consistently fulfills your expectations. This logic holds as much in the new economy as in the old. If you make Facebook your home page, every aspect of that page will be totally familiar to you, and the impact will be as powerful as facing a wall of Tide in a store—or more so.

Buying the biggest, easiest brand creates a cycle in which share leadership is continually increased over time. Each time you select and use a given product or service, its advantage over the products or services you didn't choose cumulates.

The growth of cumulative advantage—absent changes that force conscious reappraisal—is nearly inexorable. Thirty years ago Tide enjoyed a small lead of 33% to 28% over Unilever's Surf in the lucrative U.S. laundry detergent market. Consumers at the time slowly but surely formed habits that put Tide further ahead of Surf. Every year, the habit differential increased and the share gap widened. In 2008 Unilever exited the business and sold its brands to what was then a private-label detergent manufacturer. Now Tide enjoys a greater than 40% market share, making it the runaway leader in the U.S. detergent market. Its largest branded competitor has a share of less than 10%. (For a discussion of why small brands even survive in this environment, see the sidebar "The Perverse Upside of Customer Disloyalty.")

A COMPLEMENT TO CHOICE

We don't claim that consumer choice is never conscious, or that the quality of a value proposition is irrelevant. To the contrary: People must have a reason to buy a product in the first place. And sometimes a new technology or a new regulation enables a company to radically lower a product's price or to offer new features or a wholly new solution to a customer need in a way that demands consumers' consideration.

Robust where-to-play and how-to-win choices, therefore, are still essential to strategy. Without a value proposition superior to those of other companies that are attempting to appeal to the same customers, a company has nothing to build on.

But if it is to extend that initial competitive advantage, the company must invest in turning its proposition into a habit rather than a choice. Hence we can formally define cumulative advantage as the layer that a company builds on its initial competitive advantage by making its product or service an ever more instinctively comfortable choice for the customer.

Companies that don't build cumulative advantage are likely to be overtaken by competitors that succeed in doing so. A good example is Myspace, whose failure is often cited as proof that competitive advantage is inherently unsustainable. Our interpretation is somewhat different.

Launched in August 2003, Myspace became America's number one social networking site within two years and in 2006 overtook Google to become the most visited site of any kind in the United States. Nevertheless, a mere two years later it was outstripped by Facebook, which demolished it competitively—to the extent that Myspace was sold in 2011 for $35 million, a fraction of the $580 million that News Corp had paid for it in 2005.

Why did Myspace fail? Our answer is that it didn't even try to achieve cumulative advantage. To begin with, it allowed users to create web pages that expressed their own personal style, so individual pages looked very different to visitors. It also placed advertising in jarring ways—and included ads for indecent services, which riled regulators. When News Corp bought Myspace, it ramped up ad density, further cluttering the site. To entice more users, Myspace rolled out what *Bloomberg Businessweek* referred to as "a dizzying number of features: communication tools

such as instant messaging, a classifieds program, a video player, a music player, a virtual karaoke machine, a self-serve advertising platform, profile-editing tools, security systems, privacy filters, Myspace book lists, and on and on." So instead of making its site an ever more comfortable and instinctive choice, Myspace kept its users off balance, wondering (if not subconsciously worrying) what was coming next.

Compare that with Facebook. From day one, Facebook has been building cumulative advantage. Initially it had some attractive features that Myspace lacked, making it a good value proposition, but more important to its success has been the consistency of its look and feel. Users conform to its rigid standards, and Facebook conforms to nothing or no one else. When it made its now-famous extension from desktop to mobile, the company ensured that users' mobile experience was highly consistent with their desktop experience.

To be sure, Facebook has from time to time introduced design changes in order to better leverage its functionality, and it has endured severe criticism in consequence. But in the main, new service introductions don't jeopardize comfort and familiarity, and the company has often made the changes optional in their initial stages. Even its name conjures up a familiar artifact, the college facebook, whereas Myspace gives the user no familiar reference at all.

Bottom line: By building on familiarity, Facebook has used cumulative advantage to become the most addictive social networking site in the world. That makes its subsidiary Instagram's decision to change its icon all the more baffling.

THE CUMULATIVE ADVANTAGE IMPERATIVES

Myspace and Facebook nicely illustrate the twin realities that sustainable advantage is both possible and not assured. How, then, might the next Myspace enhance and extend its competitive edge by building a protective layer of cumulative advantage? Here are four basic rules to follow:

1. Become popular early. This idea is far from new—it is implicit in many of the best and earliest works on strategy, and we can see it in the thinking of Bruce Henderson, the founder of Boston Consulting Group. Henderson's particular focus was on the beneficial impact of cumulative output on costs—the now-famous experience curve, which suggests that as a company's experience in making something increases, its cost management becomes more efficient. He argued that companies should price aggressively early on—"ahead of the experience curve," in his parlance—and thus win sufficient market share to give the company lower costs, higher relative share, and higher profitability. The implication was clear: Early share advantage matters—a lot.

Marketers have long understood the importance of winning early. Launched specifically to serve the fast-growing automatic washing machine market, Tide is one of P&G's most revered, successful, and profitable brands. When it was introduced, in 1946, it immediately had the heaviest advertising weight in the category. P&G also made sure that no washing machine was sold in America without a free box of Tide to get consumers' habits started. Tide quickly won the early popularity contest and has never looked back.

Free new-product samples to gain trial have always been a popular tactic with marketers. Aggressive pricing, the tactic favored by Henderson, is similarly popular. Samsung has emerged as the market share leader in the smartphone industry worldwide by providing very affordable Android-based phones that carriers can offer free with service contracts. For internet businesses, free is the core tactic for establishing habits. Virtually all the

THE PERVERSE UPSIDE OF CUSTOMER DISLOYALTY

If consumers are slaves of habit, it's hard to argue that they are "loyal" customers in the sense that they consciously attach themselves to a brand on the assumption that it meets rational or emotional needs. In fact, customers are much more fickle than many marketers assume: Often the brands that are believed to depend on loyal customers achieve the lowest loyalty scores.

For example, Colgate and Crest are the leading toothpaste brands in the U.S. market, with about 75% of it between them. Customers for both are loyal 50% of the time (their preferred brand accounts for 50% of their annual toothpaste purchases). Tom's toothpaste, a niche "natural" brand based in Maine, has a 1% market share and is thought to have a fanatical customer following. One might expect the data to show that the 1% are mostly repeat buyers. But in fact Tom's customers are loyal only 25% of the time—half the rate of the big brands.

So why do fringe brands like Tom's survive? The answer, perhaps perversely, is that with big-brand loyalty rates at 50%, just enough customers will buy small brands from time to time to keep the latter in business. But the small brands can't overcome the familiarity barrier, and although entirely new brands do enter categories and become leaders, it is extremely rare for a small fringe brand to successfully take on an established leader.

large-scale internet success stories—eBay, Google, Twitter, Instagram, Uber, Airbnb—make their services free so that users will grow and deepen their habits; then providers or advertisers will be willing to pay for access to them.

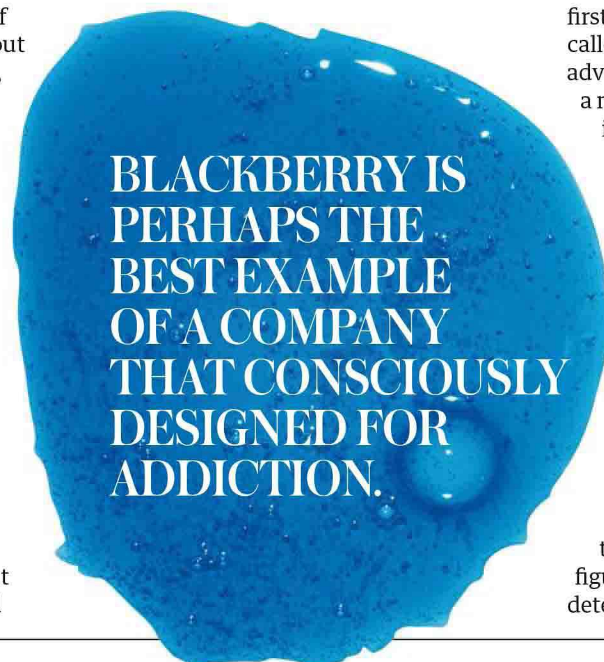
2. Design for habit. As we've seen, the best outcome is when choosing your offering becomes an automatic consumer response. So design for that—don't leave the outcome entirely to chance. We've seen how Facebook profits from its attention to consistent, habit-forming design, which has made use of its platform go beyond what we think of as habit: Checking for updates has become a real compulsion for a billion people. Of course Facebook benefits from increasingly huge network effects. But the real advantage is that to switch from Facebook also entails breaking a powerful addiction.

The smartphone pioneer BlackBerry is perhaps the best example of a company that consciously designed for addiction. Its founder, Mike Lazaridis, explicitly created the device to make the cycle of feeling a buzz in the holster, slipping out the BlackBerry, checking the message, and thumbing a response on the miniature keyboard as addictive as possible. He succeeded: The device earned the nickname CrackBerry. The habit was so strong that even after BlackBerry had been brought down by the move to app-based and touch-screen smartphones, a core group of BlackBerry customers—who had staunchly refused to adapt—successfully implored the company's management to bring back a BlackBerry that resembled their previous-generation devices. It was given the comforting name Classic.

As Art Markman, a psychologist at the University of Texas, has pointed out to us, certain rules should be respected in designing for habit. To begin with, you must keep consistent those elements of the product design that can be seen from a distance so that buyers can find your product quickly. Distinctive colors and shapes like Tide's bright orange and the Doritos logo accomplish this.

And you should find ways to make products fit in people's environments to encourage use. When P&G introduced Febreze, consumers liked the way it worked but did not use it often. Part of the problem, it turned out, was that the container was shaped like a glass-cleaner bottle, signaling that it should be kept under the sink. The bottle was ultimately redesigned to be kept on a counter or in a more visible cabinet, and use after purchase increased.

Unfortunately, the design changes that companies make all too often end up disrupting habits rather than strengthening them. Look for changes that will reinforce habits and encourage repurchase. The Amazon Dash Button provides an excellent example: By creating a simple way for people to reorder products they use often, Amazon helps them develop habits and locks them into a particular distribution channel.



BLACKBERRY IS PERHAPS THE BEST EXAMPLE OF A COMPANY THAT CONSCIOUSLY DESIGNED FOR ADDICTION.

3. Innovate inside the brand. As we've already noted, companies engage in initiatives to "relaunch," "repackage," or "replatform" at some peril: Such efforts can require customers to break their habits. Of course companies have to keep their products up-to-date, but changes in technology or other features should ideally be introduced in a manner that allows the new version of a product or service to retain the cumulative advantage of the old.

Even the most successful builders of cumulative advantage sometimes forget this rule. P&G, for example, which has increased Tide's cumulative advantage over 70 years through huge changes, has had to learn some painful lessons along the way. Arguably the first great detergent innovation after Tide's launch was the development of liquid detergents. P&G's first response was to launch a new brand, called Era, in 1975. With no cumulative advantage behind it, Era failed to become a major brand despite consumers' increasing substitution of liquid for powdered detergent.

Recognizing that as the number one brand in the category, Tide had a strong connection with consumers and a powerful cumulative advantage, P&G decided to launch Liquid Tide in 1984, in familiar packaging and with consistent branding. It went on to become the dominant liquid detergent despite its late entry. After that experience, P&G was careful to ensure that further innovations were consistent with the Tide brand. When its scientists figured out how to incorporate bleach into detergent, the product was called Tide Plus

Bleach. The breakthrough cold-cleaning technology appeared in Tide Coldwater, and the revolutionary three-in-one pod form was launched as Tide Pods. The branding could not have been simpler or clearer: This is your beloved Tide, with bleach added, for cold water, in pod form. These comfort- and familiarity-laden innovations reinforced rather than diminished the brand's cumulative advantage. The new products all preserved the look of Tide's traditional packaging—the brilliant orange and the bull's-eye logo. The few times in Tide history when that look was altered—such as with blue packaging for the Tide Coldwater launch—the effect on consumers was significantly negative, and the change was quickly reversed.

Of course, sometimes change is absolutely necessary to maintain relevance and advantage. In such situations smart companies succeed by helping customers transition from the old habit to the new one. Netflix began as a service that delivered DVDs to customers by mail. It would be out of business today if it had attempted to maximize continuity by refusing to change. Instead, it has successfully transformed itself into a video streaming service.

Although the new Netflix markets a completely different platform for digital entertainment, involving a new set of activities, Netflix found ways to help its customers by accentuating what did not have to change. It has the same look and feel and is still a subscription service that gives people access to the latest entertainment without leaving their homes. Thus its customers can deal with the necessary aspects of change while maintaining as much of the habit as possible. For customers, "improved" is much more comfortable and less scary than "new," however awesome "new" sounds to brand managers and advertising agencies.

4. Keep communication simple. One of the fathers of behavioral science, Daniel Kahneman, characterized subconscious, habit-driven decision making as "thinking fast" and conscious decision making as "thinking slow." Marketers and advertisers often seem to live in thinking-slow mode. They are rewarded with industry kudos for the cleverness with which they weave together and highlight the multiple benefits of a new product or service. True, ads that are clever and memorable sometimes move customers to change their habits. The slow-thinking conscious mind, if it decides to pay attention, may well say, "Wow, that is impressive. I can't wait!"

But if viewers aren't paying attention (as in the vast majority of cases), an artful communication may backfire. Consider the ad that came out a couple of years ago for the Samsung Galaxy S5. It began by showing successive vignettes of generic-looking smartphones failing to (a) demonstrate water resistance; (b) protect against a young child's accidentally sending an embarrassing message; and (c) enable an easy change of battery. It then triumphantly pointed out that the Samsung S5, which looked pretty much like the three previous phones, overcame all these flaws. Conscious, slow-thinking viewers, if they watched the whole ad, may have been persuaded that the S5 was different from and superior to other phones. But an arguably greater likelihood was that fast-thinking viewers would subconsciously associate the S5 with the three shortcomings. When making a purchase decision, they might be swayed by a subconscious plea: "Don't buy the one with the water-resistance, rogue-message, and battery-change problems." In fact, the ad might even induce them to buy a competitor's product—such as the iPhone 7—whose message about water resistance is simpler to take in.

Remember: The mind is lazy. It doesn't want to ramp up attention to absorb a message with a high level of complexity.

MUST READS

Experts have been debating the nature of competitive advantage for years. Below are four standout articles that articulate the most influential thinking on the subject. They can be found at HBR.org.

"WHAT IS STRATEGY?"

BY MICHAEL E. PORTER

In this classic 1996 article, Porter argues that operational effectiveness, although necessary to superior performance, is not sufficient, because its techniques are easy to imitate. The essence of strategy is choosing a unique and valuable position rooted in activities that are much more difficult to match.

"THE ONE NUMBER YOU NEED TO GROW"

BY FREDERICK F. REICHHELD

This 2003 article introduced the Net Promoter Score—a simple measure of a customer's willingness to recommend a product. NPS is a reliable index to loyalty, says Reichheld, and the best predictor of top-line growth.

"TRANSIENT ADVANTAGE"

by Rita Gunther McGrath

McGrath contends that business leaders are overly fixated on creating a sustainable competitive advantage. Business today is too turbulent to spend months crafting a long-term strategy, she says in this 2013 article. Rather, leaders need a portfolio of transient advantages that can be built quickly and abandoned just as rapidly.

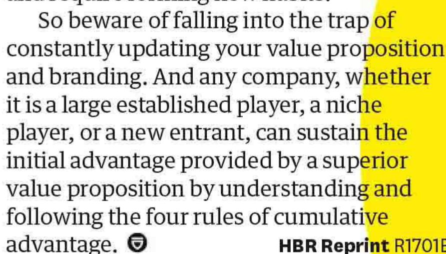
"WHEN MARKETING *IS* STRATEGY"

by Niraj Dawar

For decades, businesses have sought competitive advantage in upstream activities related to making new products—bigger factories, cheaper raw materials, efficiency, and so on. But those are all easily copied. Advantage, says Dawar in this 2013 article, increasingly lies in the marketplace. The important question is not "What else can we make?" but "What else can we do for our customers?"

Simply showing the water resistance of the Samsung S5—or better yet, showing a customer buying an S5 and being told by the sales rep that it was fully water-resistant—would have been much more powerful. The latter would tell fast thinkers what you wanted them to do: go to a store and buy the Samsung S5. Of course, neither of those ads would be likely to win any awards from marketers focused on the cleverness of advertising copy.

THE DEATH OF sustainable competitive advantage has been greatly exaggerated. Competitive advantage is as sustainable as it has always been. What is different today is that in a world of infinite communication and innovation, many strategists seem convinced that sustainability can be delivered only by constantly making a company's value proposition the conscious consumer's rational or emotional first choice. They have forgotten, or they never understood, the dominance of the subconscious mind in decision making. For fast thinkers, products and services that are easy to access and that reinforce comfortable buying habits will over time trump innovative but unfamiliar alternatives that may be harder to find and require forming new habits.



So beware of falling into the trap of constantly updating your value proposition and branding. And any company, whether it is a large established player, a niche player, or a new entrant, can sustain the initial advantage provided by a superior value proposition by understanding and following the four rules of cumulative advantage. ⊜

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A.G. LAFLEY, the recently retired CEO of Procter & Gamble, serves on the board of Snap Inc. **ROGER L. MARTIN** is a former dean of the Rotman School of Management at the University of Toronto. They are the coauthors of *Playing to Win: How Strategy Really Works* (Harvard Business Review Press, 2013). This article was inspired by the work of Craig B. Wynett, Procter & Gamble's behavioral science officer.