SPOTLIGHT

ARTWORK **Hong Hao, *My Things No. 5***
2002, scanned objects, digital c-print
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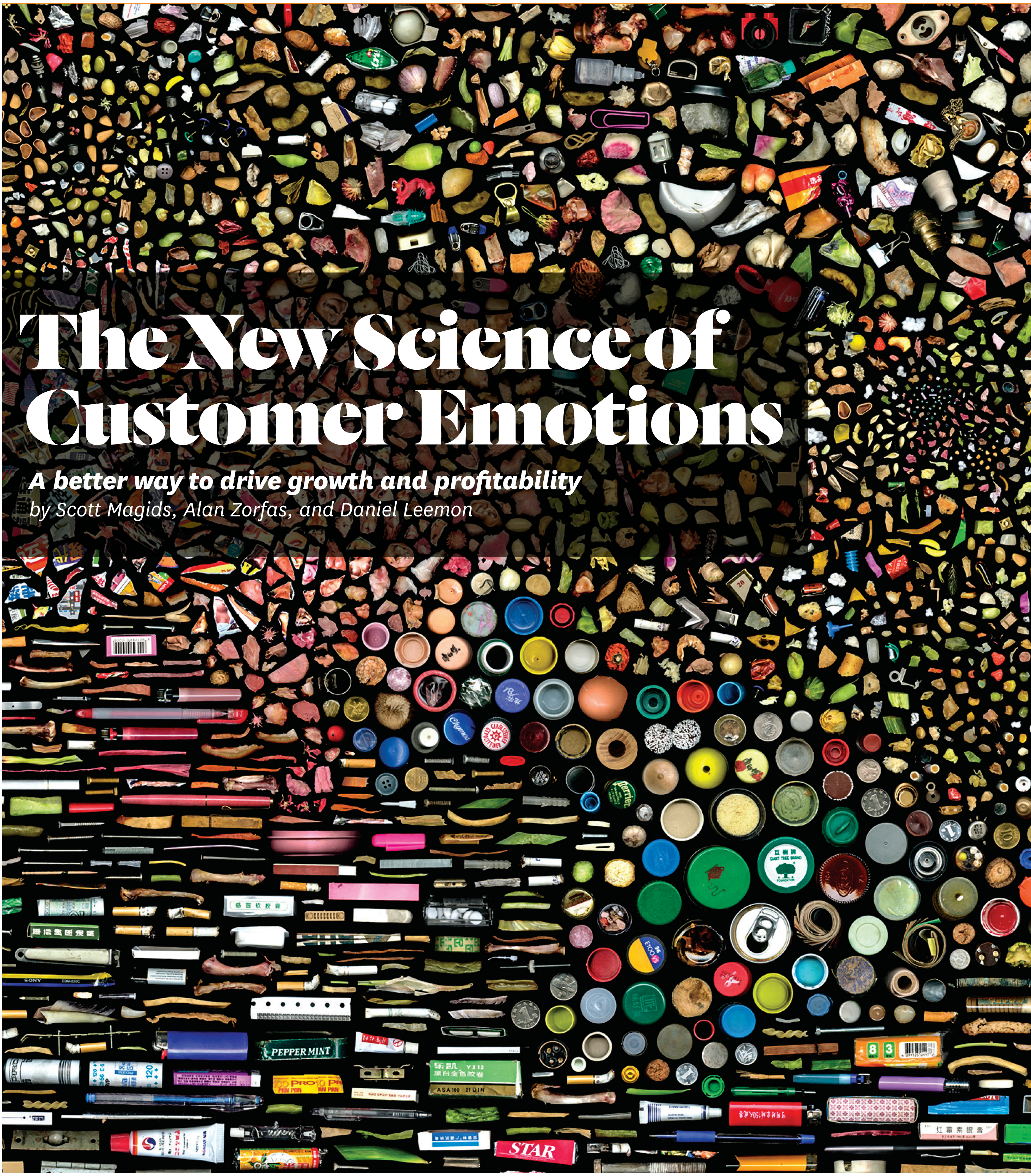

The New Science of Customer Emotions

A better way to drive growth and profitability

by Scott Magids, Alan Zorfas, and Daniel Leemon


SHANGHAI
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When companies connect with customers' emotions, the payoff can be huge. Consider these examples: After a major bank introduced a credit card for Millennials that was designed to

inspire emotional connection, use among the segment increased by 70% and new account growth rose by 40%. Within a year of launching products and messaging to maximize emotional connection, a leading household cleaner turned market share losses into double-digit growth. And when a nationwide apparel retailer reoriented its merchandising and customer experience to its most emotionally connected customer segments, same-store sales growth accelerated more than threefold.

Given the enormous opportunity to create new value, companies should pursue emotional connections as a science—and a strategy. But for most, building these connections is more guesswork than science. At the end of the day they have little idea what really works and whether their efforts have produced the desired results.

Our research across hundreds of brands in dozens of categories shows that it's possible to rigorously measure and strategically target the feelings that drive customers' behavior. We call them "emotional motivators." They provide a better gauge of customers' future value to a firm than any other metric, including brand awareness and customer satisfaction, and can be an important new source of growth and profitability.

At the most basic level, any company can begin a structured process of learning about its customers' emotional motivators and conducting experiments to leverage them, later scaling up from there. At the other end of the spectrum, firms can invest in deep research and big data analytics or engage consultancies with specific expertise. Companies in financial services, retail, health care, and technology are now using a detailed understanding of emotional connection to attract and retain the most valuable customers. The most sophisticated firms are making emotional connection part of a broad strategy that involves every function in the value chain, from product development and marketing to sales and service.

In what follows we'll describe our research and our work with companies—to our knowledge, the first to show direct, robust links among specific emotional motivators, a firm's actions to leverage them, consumer behavior, and business outcomes.

Defining Emotional Motivators

Our research stemmed from our frustration that companies we worked with knew customers' emotions were important but couldn't figure out a consistent way to define them, connect with them, and link them to results. We soon discovered that there was no standard lexicon of emotions, and so eight years ago we set out to create one, working with experts and surveying anthropological and social science research. We ultimately assembled a list of more than 300 emotional motivators. We consider customers to be emotionally connected with a brand when it aligns with their motivations and helps them fulfill deep, often unconscious, desires. Important emotional motivators include desires to "stand out from the crowd," "have confidence in the future," and "enjoy a sense of well-being," to name just a few. (See the exhibit "High-Impact Motivators.")

Identifying and measuring emotional motivators is complicated, because customers themselves may not even be aware of them. These sentiments are typically different from what customers *say* are the reasons they make brand choices and from the terms they use to describe their emotional responses to particular brands. What's more, as we'll discuss, emotional connections with products are neither uniform nor constant; they vary by industry, brand, touchpoint, and the customer's position in the decision journey.

Idea in Brief

THE PROBLEM
Companies know that emotions drive customer behavior, but most have little idea how to connect in ways that motivate the desired behaviors. The process is more guesswork than science.

THE SOLUTION
The authors have created a lexicon of "emotional motivators" and, using big data analytics, linked them to specific profitable behaviors.

THE OPPORTUNITY
By identifying the most powerful emotional motivators for a given customer segment, companies can design marketing and other strategies to leverage those motivators, giving them a new source of competitive advantage and growth.

Why Emotional Connections Matter

Although brands may be liked or trusted, most fail to align themselves with the emotions that drive their customers' most profitable behaviors. Some brands by nature have an easier time making such connections, but a company doesn't have to be born with the emotional DNA of Disney or Apple to succeed. Even a cleaning product or a canned food can forge powerful connections.

The process, in brief, looks like this: Applying big data analytics to detailed customer-data sets, we first identify the emotional motivators for a category's most valuable customers. High-value automobile customers, for example, might want to "feel a sense of belonging" and "feel a sense of freedom." Next we use statistical modeling to look at a large number of customers and brands, comparing survey results about people's emotional motivators with their purchase behavior and identifying spikes in buying that are associated with specific motivators. This reveals which motivators generate the most-profitable customer behaviors in the category. We then quantify the current and potential value of motivators for a given brand and help identify strategies to leverage them. (See the sidebar "Getting Started.")

The model also allows us to compare the value of making strong emotional connections with that of scoring well on standard customer metrics such as satisfaction and brand differentiation, thus highlighting the potential gains from looking beyond traditional measures. We find that customers become more valuable at each step of a predictable "emotional connection pathway" as they transition from (1) being unconnected to (2) being highly satisfied to (3) perceiving brand differentiation to (4) being fully connected.

Although customers exhibit increasing connection at each step, their value increases dramatically

High-Impact Motivators

Hundreds of "emotional motivators" drive consumer behavior. Below are 10 that significantly affect customer value across all categories studied.

I am inspired by a desire to:	Brands can leverage this motivator by helping customers:
Stand out from the crowd	Project a unique social identity; be seen as special
Have confidence in the future	Perceive the future as better than the past; have a positive mental picture of what's to come
Enjoy a sense of well-being	Feel that life measures up to expectations and that balance has been achieved; seek a stress-free state without conflicts or threats
Feel a sense of freedom	Act independently, without obligations or restrictions
Feel a sense of thrill	Experience visceral, overwhelming pleasure and excitement; participate in exciting, fun events
Feel a sense of belonging	Have an affiliation with people they relate to or aspire to be like; feel part of a group
Protect the environment	Sustain the belief that the environment is sacred; take action to improve their surroundings
Be the person I want to be	Fulfill a desire for ongoing self-improvement; live up to their ideal self-image
Feel secure	Believe that what they have today will be there tomorrow; pursue goals and dreams without worry
Succeed in life	Feel that they lead meaningful lives; find worth that goes beyond financial or socioeconomic measures

when they reach the fourth step: Fully connected customers are 52% more valuable, on average, than those who are just highly satisfied. In fact, their relative value is striking across a variety of metrics, such as purchases and frequency of use. (See the exhibit "The Value of Emotional Connection.")

The pathway is an important guide to where companies should invest—and it reveals that they often invest in the wrong places. To increase revenue and market share, many companies focus on turning dissatisfied customers into satisfied ones. However, our analysis shows that moving customers from highly satisfied to fully connected can have three times the return of moving them from unconnected to highly satisfied. And the highest returns we've seen have come from focusing on customers who are already fully connected to the category—from maximizing their value and attracting more of them to your brand.

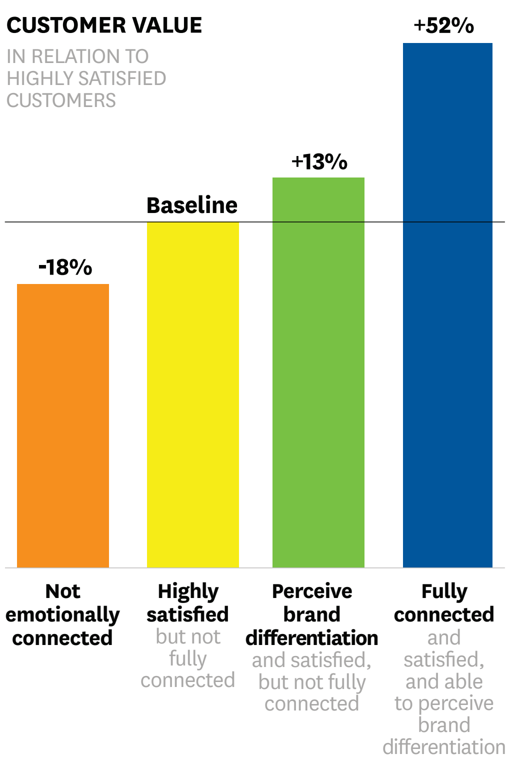
Four insights from our research are especially relevant to firms looking to build on emotional connection.

Emotional motivators vary by category and brand. Of the 300-plus motivators we've identified, 25 significantly affect customer value across all the categories we've analyzed. Anywhere from five to 15 additional motivators are important in any given category. For example, the sense that a home furnishings store "helps me be creative" inspires consumers to shop there more often. The wish to "feel revived and refreshed" drives loyalty to fast-food restaurants. Emotional motivators also vary within categories, depending on the desires of brands' most valuable customers. Because brands differ in how well they align with their customers' motivators, each may have a different starting point in any effort to strengthen emotional connections—and that point won't necessarily relate to conventional measures of brand perception. (See the exhibit "Mind the (Emotional Connection) Gap.")

Emotional motivators vary across customer segments. Recall the credit card designed with Millennials in mind. Our model uncovered desires to "protect the environment" and "be the person

The Value of Emotional Connection

As customers' relationships with a brand deepens, they move along the pathway toward full emotional connection. Although they become more valuable at each step, there's a dramatic increase at the final one: Across a sample of nine categories, fully connected customers are 52% more valuable, on average, than those who are just highly satisfied.



The increased value of fully connected customers relative to highly satisfied ones varies by category. Here are the values for the nine categories sampled.

Household cleaner purchases **+103%**	Tablet app purchases **+82%**	Credit card swipes **+68%**
Online retailer purchases **+52%**	Hotel room stays **+41%**	Discount store visits **+37%**
Consumer-banking products **+35%**	Fast-food visits **+27%**	Casino-gaming spending **+23%**

A company doesn't have to have the emotional DNA of Disney or Apple to succeed. Even a cleaning product or a canned food can forge powerful connections.

I want to be" as key motivators in the banking category for that age group. (Traditional industry motivators such as desires to "feel secure" and to "succeed in life" are more typical of older groups.) The bank crafted messaging and features to connect to those sentiments, leading to its fastest-growing new credit card.

Emotional motivators for a given brand or industry vary with a person's position in the customer journey. In banking, the desire to "feel secure" is a critical motivator when attracting and retaining customers early on. When cross-selling products later, the wish to "succeed in life" becomes more important. To maximize results, companies must align their emotional-connection strategies with their specific customer-engagement objectives—acquisition, retention, cross-selling, and so on.

Emotional-connection-driven growth opportunities exist across the customer experience, not just in traditional brand positioning and advertising. For example, social media can have a big impact on emotional connection. One condiments brand found that 60% of its social-network-affiliated customers (especially followers on Facebook, Twitter, and Pinterest)—versus 21% of all customers—were emotionally connected. It accelerated growth in a matter of months by increasing its focus on its social media network, developing its online customer community, and pointing customers to the website for recipes and promotions.

Putting Emotional Connections to Work

Let's look at how an emotional-connection strategy paid off for a national fashion retailer. The company was struggling with common industry challenges. Although it had a well-known brand and a strong market presence, same-store sales were stagnating, and promotional pricing was shrinking margins. So it focused on cost management, logistical efficiency, and streamlining the merchandise and store mix—with limited success. Over the past two years we worked with the retailer on a four-part strategy to identify, understand, and quantify the value of the most emotionally connected customers. This exposed a number of large, unexploited opportunities and allowed the retailer to better direct investments across the firm.

1. Target connected customers. We set out to answer two basic questions: How valuable were the retailer's fully connected customers, and could the company attract more of them? We used statistical techniques to measure the strength of customers' emotional connections with the retailer and with its competitors. The process began with surveys to discern how consumers related to key motivators in the category and with analysis to see which motivators best predicted purchase behavior. We then modeled the financial impact of building emotional connections with customers at each step on the pathway from unconnected to fully connected.

Our analysis showed that although fully connected customers constituted just 22% of customers in the category, they accounted for 37% of revenue and they spent, on average, twice as much annually ($400) as highly satisfied customers. Enhancing emotional connection could be a viable growth strategy if the retailer could attract fully connected customers from competitors, transform satisfied customers into fully connected ones, or both.

Further segmentation revealed a group of especially valuable customers. We labeled them Fashion Flourishers, because apparel connects to their deep desire for excitement, social acceptance, and self-expression. As a group, Flourishers are the most emotionally connected segment by far; half are already fully connected to the category. Comparing the ratios of various emotion-based segments' spending to those segments' size highlights extraordinary differences in value: Flourishers have a ratio of 1.9—nearly twice the market average and more than nine times that of the least-connected group (whom we called Can't Please Them, and whose ratio is just 0.2). Given the relatively fixed cost structure of retailing, acquiring and retaining Flourishers represented an opportunity to boost revenue and margins.

A detailed profile of Flourishers underscored their attractiveness and exposed ways for the retailer to target them. Customers in this segment:

- have a high lifetime value, spending an average of $468 a year in the category, versus $235 for other customers.
- shop more often and advocate more: Fully 46% of Flourishers shop key fashion categories at least monthly, versus 21% of all shoppers. Flourishers are 1.4 times as likely as other customers to recommend retailers to their friends and family members.
- are less price-sensitive: They are 2.3 times as likely as other customers to say they are "willing to pay more for the best fashion products," 1.7 times less likely to make fashion purchase decisions solely on the basis of price, and 1.3 times less likely to shop for the lowest prices.
- are predominantly female and younger, more ethnically diverse, and more likely to live in urban centers than other customers.
- are more digitally engaged than other segments: They are 2.3 times as likely to research a fashion retailer online, 2.9 times as likely to shop for fashion products through their mobile devices, and 3.7 times as likely to follow a retailer on social media.

Drawing on these and other insights, the retailer created a blueprint for pursuing the most valuable customer opportunities. By applying the category segmentation scheme to the more than 25 million people in its customer database, it determined the financial value and behaviors of its own Flourishers, confirming that they spent substantially more than other customers and had the highest lifetime value and the lowest attrition and price sensitivity of any segment. It estimated that moving satisfied Flourishers up the pathway to full emotional connection could increase annual sales by 3% to 5%, and that luring Flourishers away from competitors could increase revenue by 5% to 8%. Because members of this group spend more per capita than other customers and turn over less often, the analysis also predicted improvements in operating margins and returns on capital.

2. Quantify key motivators. Next, by analyzing tens of thousands of Flourishers across the category, we quantified the impact of more than 40 motivators on the group's purchasing, spending, loyalty, and advocacy. We identified the most important category motivators—the ones that bore the strongest relationship to purchases—and assessed the retailer's competitive position in each. The financial analysis and modeling showed that further investments to strengthen the customer experience around the desires to "feel a sense of belonging," "feel a sense of thrill," and "feel a sense of freedom"—the motivators driving category purchase behavior and for which the retailer already had the strongest position—were likely to yield the highest ROI. Those motivators therefore became the focus of specific customer-experience investments.

3. Optimize investments across functions. To maximize opportunities from emotional connection, companies must look beyond the marketing department. The retailer examined every function and customer touchpoint to find ways to enhance high-ROI emotional motivators. This brought four major investment areas into focus: stores, online and omnichannel experiences, merchandising, and message targeting.

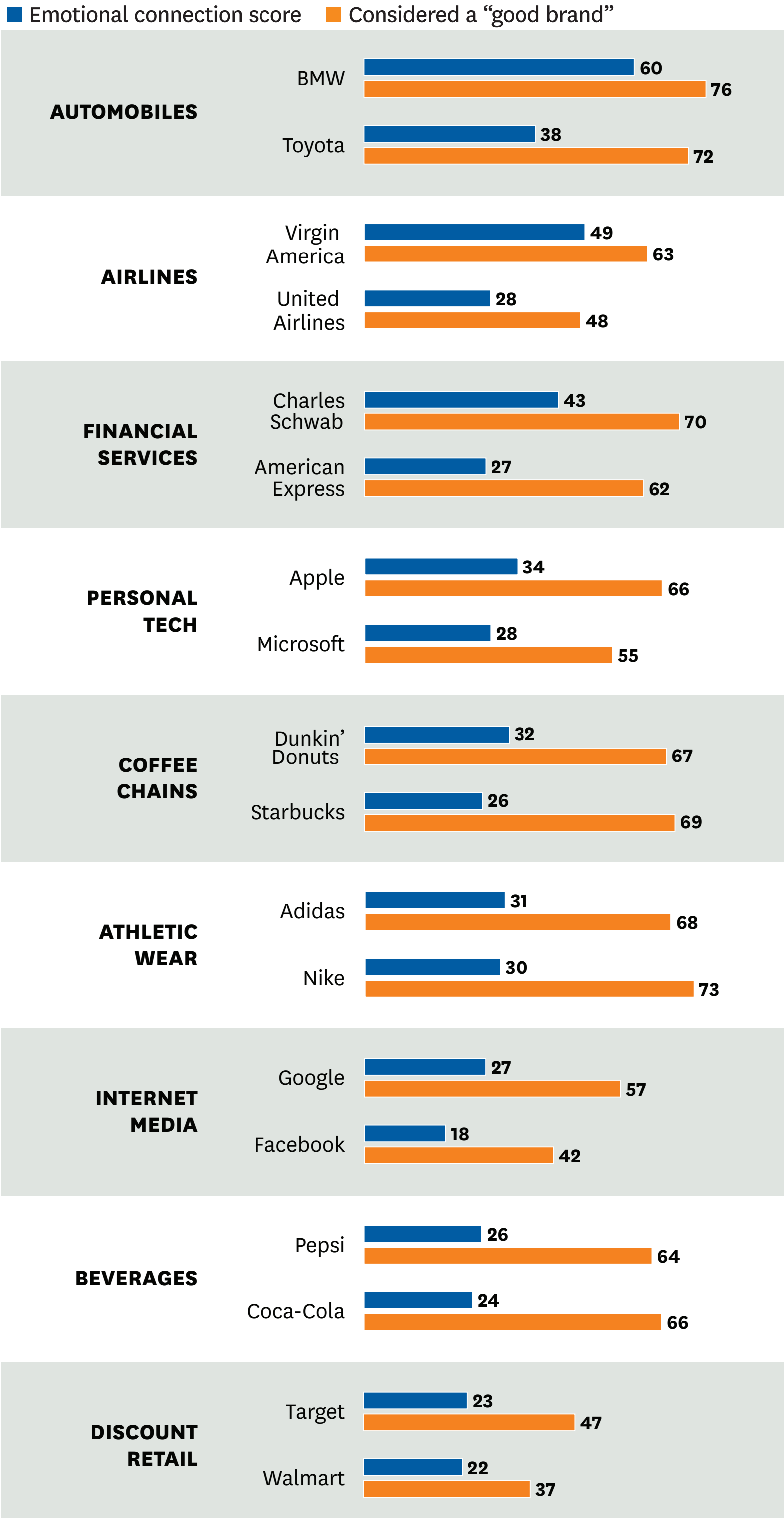
Stores. To estimate which of the retailer's more than 700 stores had the most Flourisher customers, we scored each one according to the presence of this segment in the store's trading area. We found that high-scoring stores generated up to 25% more revenue than others. Their same-store sales were growing twice as quickly, and their operating profit was 30% greater. Their profit margins were enhanced by 10% higher inventory turns and—consistent with expectations—by lower coupon usage. (Flourishers don't just say they're willing to pay more—they actually do pay more.)

To maximize opportunities from emotional connection, companies must examine every function and customer touchpoint.

These analytics changed the retailer's store location strategy. We mapped the concentrations of Flourishers in all U.S. markets and submarkets, along with the segment's propensities to shop at more than 150 other retailers. The company's real estate team now uses a predictive model to identify

Mind the (Emotional Connection) Gap

The "emotional connection score" (ECS) of a brand measures the share of customers who are fully connected. A gap between a brand's ECS and the share of customers who consider it a "good brand" signals an opportunity to transform satisfied customers into fully connected—and more valuable—ones. Gaps between a brand's ECS and competitors' indicate opportunities to seize (or maintain) advantage by attending to emotional connections.



sites near Flourishers and also near other retailers they frequent.

The change is paying off. New stores in trading areas with high concentrations of Flourishers have first-year sales that are 20% higher than historical averages, leading to faster break-even times and higher returns on capital. Further analysis has revealed opportunities to open hundreds of stores catering to underserved Flourisher populations. To free up capital for new stores, the retailer is closing ones in low-Flourisher areas.

Emotional-connection analytics have also allowed the retailer to understand which aspects of the in-store shopping experience are most important to Flourishers. Because those qualities often aren't recognized by customers themselves, they had not informed store design. Flourishers *say* it's important that sales associates are easy to find, that clearance items are easy to locate, and that stores have free Wi-Fi. However, analysis showed that those aren't actually the features that drive their visits and purchases.

On the basis of its modeling, the retailer predicted that the option to purchase online and pick up in-store—something that few customers say is important and that was available only on a limited basis—would be a key driver of emotional connection (it speaks to Flourishers' desire to "feel a sense of freedom"). It tested targeted communication and in-store promotion of the option and saw a material lift in sales; it has now committed capital to a nationwide rollout of the capability. Similarly, the retailer predicted that seeing imagery in-store of "people like you" would drive emotional connection and purchasing among Flourishers (although they say that this factor is unimportant). As a test, it expanded its presence on photo-sharing social media sites and encouraged customers to submit selfies showing their favorite outfits and styles. Selfie slide shows are (with subjects' permission) displayed on large screens in test stores, thus addressing Flourishers' desire to "feel a sense of belonging." Research indicates that the segment has responded to this motivator and increased purchase intent.

The retailer is now designing and testing store experiences to leverage nearly a dozen other drivers of emotional connection.

Online and omnichannel experiences. Like individual store environments, online and omnichannel experiences can be optimized for emotional connection. To this end the retailer quantified the impact of more than 100 omnichannel touchpoints on customers' emotional connection and spending. These included mobile app browsing and purchasing, visits to the retailer's social media pages, e-commerce site navigation, and in-store returns of merchandise bought online. Each touchpoint was scored according to its potential impact on emotional connection and spending. Statistical models then revealed the most powerful combinations of touchpoints at each stage of the customer journey, allowing the retailer to hone its omnichannel strategy and prioritize investments.

For example, Flourishers *say* that using a computer to shop online via an easy-to-use site is important to purchase decisions. In reality, the ease and allure of the *mobile* site and the availability of services such as ApplePay have a far greater impact on emotional connection and spending levels. The retailer is using such insights to design investments across e-commerce, mobile, and social media that will build emotional connections with Flourishers. For instance, it developed multiple concepts for the navigational redesign and aesthetic reskin of its mobile app, tested how effectively each version enhanced feelings of "freedom," "belonging," and "thrill" and drove purchases, and rolled out the best one.

Merchandising. Merchandise selection, from the broad category level to specific labels, can be optimized to drive emotional connection. The retailer now tracks the purchasing habits of Flourishers nationwide through point-of-sale data collected from hundreds of retailers by independent research companies. By applying the Flourisher segmentation to these POS databases, it has modeled the segment's purchase behavior across more than 20 product categories and 100 labels and learned which of the approximately 10 competitive retailers these consumers buy from. The resulting insights have exposed gaps in merchandise important to Flourishers, and the retailer is working with its manufacturers to rebalance its mix.

Message targeting. Having identified its Flourisher customers, the retailer can now send them personalized messages designed to resonate with the emotional motivators that drive behavior at each stage of the customer journey. For example, when Flourishers are initially considering the retailer, "having fun" while shopping is paramount. At the point of purchase, "helps me feel creative" emerges

Getting Started

Identifying and leveraging customers' emotional motivators can be broken into three phases.

1 **FIRST,** inventory your existing market research and customer insight data. You will probably find qualitative descriptions of your customers' motivating emotions, such as what aspects of life they value most (family, community, freedom, security) and what they aspire to day-to-day and in the future. From there, pursue research to add detail to your understanding of those emotions. Define a set of emotional motivators to probe—the list in the exhibit "High-Impact Motivators" will provide ideas, as will your qualitative research. Online surveys can help you quantify the relevance of individual motivators. Are your customers more driven by life in the moment or by future goals? Do they place greater value on social acceptance or on individuality? Don't assume you know what motivates customers just because you know who they are. Young parents may be motivated by a desire to provide security for their families—or by an urge to escape and have some fun (you will probably find both types in your customer base). And don't undermine your understanding of customers' emotions by focusing on how people feel about your brand or how they say it makes them feel. You need to understand their underlying motivations separate from your brand.

2 **SECOND,** analyze your best customers—those who buy and advocate the most, are the least price-sensitive, and are the most loyal. To do this, identify those who are highly satisfied with your brand—whatever the degree of their emotional connection—and divide them into quartiles according to annual purchases, advocacy, and so on. Examine the top quartile to see how the characteristics and behavior of your best customers differ from those of people in the other quartiles. Look at demographics, whether people buy in person or online, how much they buy from your competitors, and where they get their information about your brand (traditional media, social networks, and so on). Compare the emotional motivators of your best customers with the ones you've researched for your overall customer base and see which are specific or more important to the high-value group. Find the two or three of these key motivators that have a strong association with your brand. They will serve as an initial guide to the emotions you need to connect with in order to grow the most valuable customer segment of your business and to the marketing strategies and customer experience tactics that will provide the greatest connection opportunities.

3 **THIRD,** make the organization's commitment to emotional connection a key lever for growth. Use the language of emotional connection when you talk about your customers—not just in the marketing department but across the firm. In our experience, successful strategies based on emotional connection require buy-in from the top and must be embraced across functions. For example, if people in product development are working on a version that's easier to use, they shouldn't just ask whether customers will be satisfied with it; they should learn which emotional motivators it resonates with and how it will strengthen emotional connections.

as key. Working from such insights, the retailer has developed a series of messages targeting Flourishers and timed according to their position in the journey: A rules engine sends out e-mails tailored to browsing, transacting, and servicing interactions. Response rates to this direct-marketing campaign are 40% to 210% higher than historical averages.

Media selection can also be finely tuned to boost emotional connection. We profiled the media consumption of Flourishers across 500 TV shows, 100 websites and social networks, 50 types of mobile apps, 80 print publications, and 20 types of radio programming. Working with its ad agency, the retailer is executing emotional-connection-based media plans. For example, knowing that Flourishers are enthusiastic users of Instagram, YouTube, and Twitter, it has scaled up its programs on these platforms, which has increased its marketing ROI.

4. Systematize, measure, and learn. Leveraging emotional connection does not require turning your business processes upside down; you can embed relevant strategies into existing work streams. This is most effectively done by making emotional connection a key performance indicator and including it on the cross-functional senior-management dashboard.

The retailer developed a scorecard that gives the CEO and the executive team a single-page view of customers' progression on the emotional-connection pathway, along with the increase or decrease in connected customers of the company and its key competitors. The scorecard shows the correlation of customers' emotional-connection scores with lifetime value measures such as annual spending, churn, and tenure. It also shows how the business impacts of specific emotions are trending and how Flourishers engage with key in-store and omnichannel touchpoints that drive emotional connection. In addition, the retailer includes emotional-connection metrics in its ongoing testing of media messages, store designs, and digital and mobile experiences.

The results of these strategic and operational changes are startling. Same-store sales for stores serving Flourishers realized growth of 3.5% over the past year, whereas annual same-store growth over the past five years has averaged just 1%. Inventory turns increased more than 25%. Market share and customer advocacy also grew (the number of customers recommending the retailer is up 20% year-over-year), contributing to record-high customer lifetime values. Underlying all these gains is a 20% rise in the company's emotional-connection score—largely the result of moving satisfied customers to full emotional connection.

About the Research

Beginning with a two-year research project involving literature review and social science experts, we identified 300 universal motivating emotions. To measure their impact on consumer behavior, we conducted intercept surveys of more than one million U.S. consumers through thousands of websites, gathering data across 30 industries and 400-plus brands that included measures of brand consideration, trial, repurchase, advocacy, customer satisfaction, brand differentiation, and emotional connection. Over six more years we collected more than one billion data points, including demographic and actual purchase data. Using analytical techniques such as multivariate regression and structural equation modeling, we determined which emotional motivators are most powerfully associated with customer behavior and customer value by category and by brand and the degree to which connecting to those motivators influences customer behavior, both in absolute terms and relative to more commonly measured drivers of behavior.

The Management Imperative

Embracing an emotional-connection strategy across the organization requires deep customer insights, analytical capabilities, and, above all, a managerial commitment to align the organization with the new way of thinking. It's important that marketing not hoard the strategy as "its" domain (although the function can and should use emotional connection to demonstrate the direct financial impact of its spending). Instead, marketing must partner with other functions, teaching and socializing emotional connection. The retailer we profiled now uses emotional connection to drive alignment across the operations management team, the C-suite, and the boardroom. At the outset the CEO identified emotional connection as a strategy to restore profitable growth. The CFO and the chief strategy officer then "sized the financial prize," leading the heads of marketing, stores, customer experience, and merchandising to collaborate on an integrated strategy.

The advent of big data analytics brings clarity, discipline, and rigor to companies' long-held desire to connect with the customer emotions that truly matter. Emotional connections no longer have to be a mystery—they can be a source of real competitive advantage and growth.

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