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Article

Customer Insights that drive innovative social enterprises

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3 | 2017 **SCHWERPUNKT** Interview mit Jochen Werne, Bankhaus August Lenz & Co. AG • Crowdfunding Data as a Source of Innovation • Sketching the Future of Mobility with Visualizations • Customer Insights in Social enterprises • Business Transformation: Customer Insights und unternehmensinterne Denkmuster • Customer Insights in Fintech-Unternehmen • Agiles Marketing digitaler Produkte • Studying Shelf Framing With Multiple Consumer Insights **SPEKTRUM** Social Selling: Status Quo

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Customer Insight Driven Business Transformation

Universität St.Gallen

Customer Insights that drive innovative social enterprises

The transformation of societies is the core business of innovative social enterprises. These hybrid organizations require deep customer insights to address the manifold needs of the public and business. The present work shows how marketing research enhanced the marketing intelligence of the social enterprise known as Little Sun, enabling the company to better promote its latest innovative product that uses "the power of sustainable light and energy to transform lives".

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At is core, innovation improves people's lives and enhances a company's profitability by providing increased quality at decreased cost (Hauser et al., 2006). Indeed, innovative businesses provide great value to societies – especially in emerging and developing economies – by stimulating growth and thus generating employment by providing affordable and accessible products and services to a wider range of the world's population (Ahlstrom, 2010). In this context, an increasing number of social enterprises have emerged since the late 1970s (Borzaga and Defourny, 2001). That era also witnessed the beginning of the global solidarity and corporate responsibility movement (Kates et al., 2005). Generally speaking, social enterprises, which have their origins in the philanthropic businesses of the nineteenth century, describe organizations and firms striving primarily for societal value instead of purely financial profits; they are referred to as the third sector of the economy, or simply as the social economy (Shaw, 2004). Their business purpose is to trade products and services to tackle social and environmental problems. In the course of doing business, many social enterprises – such as the Grameen Bank of Muhammad Yunus – provide significant benefits to their respective societies (Leadbeater, 2007).

The rise of the phenomenon of social enterprises in recent decades has paralleled the increase in problems facing highly developed economies, which are primarily induced by market inefficiencies (e.g., poverty, pollution, and exclusion from health care) (Shiller, 2003). Those problems are caused, at least to a significant degree, by neoliberal economic theory and its (often misleading) efficient market assumptions, such as "the price is right" (Courtois, 2009). However, with regard to extreme and increasing gaps in income and wealth, leading economists do not expect "that inequality would be corrected in the future, and [...] that any major economic policy was likely to counteract recent trends" (Shiller, 2016). More optimistically, Bill Gates (2007), in his role as a philanthropist, explains why he and his wife support social initiatives worldwide through their Gates Foundation:

> **"We can make market forces work better for the poor if we develop a more creative capitalism – if we can stretch the reach of market forces so that more people can make a profit, or at least a living, serving people who are suffering from the worst inequities."**
>
> (Gates, 2007, Harvard Commencement)

From Gates' point of view, a socially related creative destruction approach is needed to reduce local and global inequity. Indeed, that is the core business of social enterprises: creating and offering new business solutions to the market "to better address unmet social needs" (Leadbeater, 2007). Hence, by nature, social enterprises are inherently innovative (Vega and Kidwell, 2007). However, good social intentions and approaches are not, per se, enough to solve social problems; in fact "social challenges require systemic solutions that are grounded in the client's or customer's needs" (Brown and Wyatt, 2010, p. 32). In this regard, a major

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challenge for social enterprises is their organizational form as hybrid organizations that incorporate the characteristics of the private, public and nonprofit sectors (Doherty et al., 2014). The management of the various demands and needs of multiple stakeholders is especially critical (Bridgstock et al., 2010). If stakeholder complexity is not addressed and managed well, tensions will eventually arise from the conflicts of interest that emerge when considering the trade-off of financial over social goals (Zahra et al., 2009). Indeed, that core conflict is the first paradox of social enterprises: "Doing Good Versus Doing Well" (Lynch and Walls, 2009, p. 22). To cope with this dualism, a social enterprise needs to balance its business in terms of achieving measureable social impact alongside gaining financial return. In other words: A purposeful social business model aims to be financially self-sustaining; it can then be replicated and scaled to achieve maximum social impact (Sosense, 2013).

However, even quite successful social enterprises, such as Jamie Oliver's Fifteen Apprentice Program, are not able to ignore market realities and must invest substantial management resources to adequately walk the thin line between social and economic performance. In the case of Jamie Oliver, his social enterprise faces challenges on the side of the beneficiaries, e.g., identifying socially excluded young people who bring the right skills to job training, as well as on the side of the suppliers, e.g., offering appealing restaurant services to consumers at reasonable prices; his social enterprise has to address all challenges adequately to run an impactful business with maximum social and financial value (Butler, 2008; Henley, 2012). Before they launch, market-driven social enterprises "that provide goods and services in direct competition with the public and private sectors" (Haugh, 2005, p. 5) are particularly in need of a comprehensive market analysis that investigates the following two questions: What is the exact social need? And, above all, is there a market demand that may create a lasting and profitable revenue stream to satisfy the social purpose of the enterprise?

With regard to the latter question in particular, which focuses on the supplier side, profound market research using advanced methods is required to address the issue of social desirability and social approval. In fact, as past research has shown, individuals' self-reported judgments are often biased by social desirability and social approval (e.g., Adams et al., 2005; Lee and Sargeant, 2011). Especially in business ethics, a high level of sensitivity and care is required when considering the negative effects of such response bias (Randall and Fernandes, 1991). Under these circumstances, self-report measures will capture distorted opinions and beliefs that originally result "from the desire of respondents to avoid embarrassment and project a favorable image to others" (Fisher, 1993, p. 303).

For this reason, people's consciously expressed responses (e.g., attitudes or preferences) to surveys regarding socially and ethically responsible products are often not consistent with their actual behavior in the market (De Pelsmaker et al., 2005). Hence, the value of self-report (explicit) measures to generate substantiated data seems highly limited and less valid, particularly in socially sensitive domains such as social and ethical business. In this regard, past research in social and cognitive psychology has developed so-called implicit measures to overcome these limitations (Gawronski and De Houwer, 2014). Moreover, there is also a need for advanced analytical approaches, such as structural equation modeling, to process the data generated and to identify (unknown) relationships that improve management decisions effectively (Schmidt et al., 2015). In particular, data mining techniques "such as neural network analytics, are needed to process all the retrieved data and uncover hidden patterns of knowledge" (Schmidt and Reiter, 2016, p. 10). That said, the current article presents a real use case based on a combined approach of sophisticated implicit measurement and advanced data mining analysis that enhances customer understanding of the ambitious and market-driven social enterprise known as Little Sun in order to better promote the company's latest product innovation, the Little Sun Charge.

Management Summary

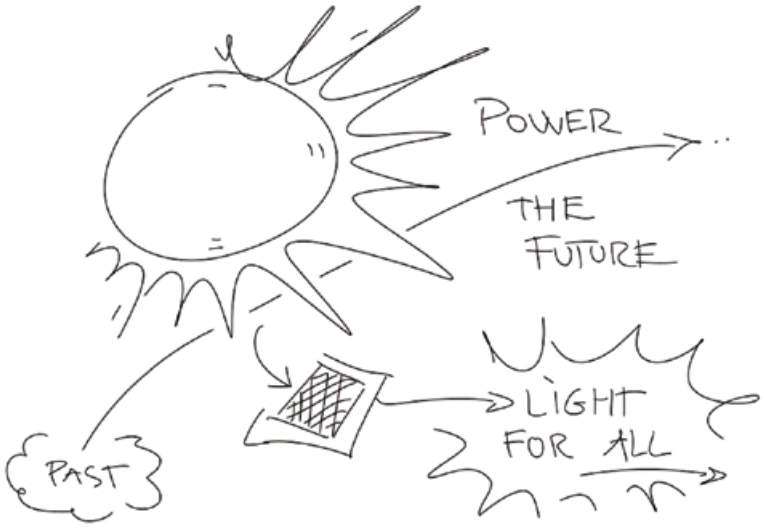
1. A good social intention is only a necessary condition for transforming the lives of disadvantaged groups, in both local as well as global contexts.
2. For lasting and impactful success, a social enterprise requires deep customer insights to adapt to the diverse challenges of being a hybrid company.
3. A 'social mind mining evaluation' enables an efficient knowledge and decision support platform for optimizing future management actions of a social enterprise.

EMPOWERING SOCIAL BUSINESS INNOVATIONS THROUGH SOCIAL MIND MINING EVALUATION

The innovative strength of social enterprises "is often manifested by applying novel market-based solutions to intractable social problems, rather than through technical innovations in products, services or technologies" (Peattie and Morley, 2008). Therefore, opportunity recognition is critical in order to address social deficiencies in terms of unmet social needs and in order to establish economic performance in terms of capitalizing on social business for achieving a self-sustaining performance (Haugh, 2005). Or, as Hart and Milstein (2003) state: "Thinking through the full range of challenges and opportunities is the first step managers can take toward the creation of sustainable value for the corporation." (Hart and Milstein, 2003, p. 59). In the context of social businesses, entrepreneurs must implement an innovation approach that consequently focuses on the re-embedding of the various stakeholders (e.g., suppliers, producers, consumers) back into society (Simanis and Hart, 2009). With that said, low-income markets in developing countries provide particularly strong growth opportunities, even for multinational companies, based on satisfying the needs of the millions of poor and bringing prosperity to them (Prahalad and Hart, 2002) .

However, even experienced top brand companies with sufficient financial resources and business intelligence struggle to satisfy the needs of their consumers. Indeed, the failure rate of new products launched into the market is approximately 40 percent (Castellion and Markham, 2013). For example, a classical and well-known brand failure is the introduction of the reformulated Coca-Cola in April 1985, often referred as the New Coke (Coca-Cola, 2012). Despite intensive market research that predicted encouraging customer responses in favor of the new formula, the New Coke dramatically failed to receive any positive consumer acceptance after the product launch, with the result that in July 1985, the old and familiar Coca-Cola Classic was re-introduced into the market (Mowen, 1988; Day, 1989; Fournier, 1999). Social businesses and societal initiatives face similar difficulties when attempting to satisfy unmet needs. An exemplary case is the Naandi Foundation-run community treatment plant. This social business was established to produce clean and portable water and was successful in doing so, but it failed to take into account the culture and needs of the local people, and thus it missed the opportunity to establish an impactful business with maximum social and financial value (Brown and Wyatt, 2010).

Fig. 1: Little Sun's Social Business Vision to Transform Societies



Source: http://www.littlesun.com/about

Lessons Learned

1. Opportunity recognition is critical in order to address social deficiencies.
2. Social intentions and approaches are not enough to solve social problems.
3. Systemic solutions that are grounded in the client's or customer's needs are needed to face social challenges.
4. Profound market research using advanced methods reduces the threat of social desirability and social approval.
5. As the success story of Little Sun shows, it is possible to "do good and do well".

The reason for such common misunderstanding of customer needs is unenlightened marketing management. According to Zaltman (2003), "[w]ithout a deep understanding of consumers – that is without knowing consumers' hidden thoughts and feelings and the forces behind them – marketers can't accurately anticipate consumers' responses" (Zaltman, 2003, p. 17). Thus, although the market researchers of the New Coke (and many other companies) may have asked consumers invalid questions (Schindler, 1992), asking the consumer in the first place is the primary problem. Indeed, an increasing number of neuroeconomic studies indicate that the consumer's brain encodes and retrieves most information without conscious awareness (e.g., Deppe et al., 2005; Knutson et al., 2007). In fact, so-called implicit evaluations, such as implicit attitudes, "often come to mind automatically" (Wilson et al., 2000, p. 102). For that reason, consumers are not always fully aware of the true reasons for their judgments and decision-making (e.g., Nisbett and Wilson, 1977; Weber et al., 2009). In light of the existence of an explicit and implicit mind (Evans, 2003), the success or failure of a product innovation seems to be primarily determined by the automatic evaluation of implicit associations in the customer's mind. Aside from techniques that measure physiological responses or brain activity, response-latency-based measures, such as the well-known Implicit Association Test (IAT) invented by Greenwald, McGhee, & Schwarz (1998), are capable to assess those automatic evaluations (Wittenbrink and Schwarz, 2007). Past research has demonstrated that response-latency-based measures are highly efficient at revealing the degree of favor (or disfavor) toward a marketing entity such as a product or brand advertisement (e.g., Schmidt et al., 2016). Specifically, implicit measures are capable of capturing nonlinear responses (e.g., Deppe et al., 2005). Additionally, Frydman and Camerer (2016) recently suggested to consider the psychological mechanism of nonlinear responses in the analysis of decision making. Because conventional methods of analysis, such as regression analysis, are limited to the assessment and estimation of linear relationships, advanced data mining tools such as neural networks are required to identify nonlinear relations as well as hidden structures in the implicit data (Schmidt et al., 2015). Thus, even social businesses need sophisticated market research – based on powerful neuromarketing tools and advanced data mining techniques – to provide here a 'social mind mining evaluation' that "enables an efficient knowledge and decision support platform for optimizing future management actions" (Schmidt and Reiter, 2016, p. 12).

USE CASE: ENHANCING LITTLE SUN'S MARKETING INTELLIGENCE

An Embedded Innovation Approach to Creating Sustainable Value

Little Sun is a market-driven social enterprise founded in 2012 by artist Olafur Eliasson and engineer Frederik Ottesen (for an overview, see Little Sun, 2017a). Their social business vision is to transform the lives of (at minimum) 1.1 billion people on earth who have no access to energy. Those aspiring poor belong to the bottom of the world economic pyramid and require radical innovations in environmentally sustainable technologies at a low price to improve their lives (Prahalad and Hart, 2002). In this regard, the vision of Little Sun is to use "the power of sustainable light and energy to transform lives" (Little Sun, 2017b), as illustrated in Figure 1. Five years after the project started, Little Sun has grown to a global social business that strengthens communities through capacity building, specifically through creating sustainable jobs and profits within the local environment of a community (Little Sun, 2017c).

In fact, there is a strong relation between energy consumption and human wellbeing (Banuri and Hällström, 2012), and the efforts needed to generate a huge social impact are relatively small. With regard to the off-grid population in developing countries, if these people were to receive enough energy to read at night, pump drinking water and listen to radio broadcasts, worldwide energy consumption would increase less than one percent (Ahuja and Tatsutani, 2009). Therefore, providing renewable energy resources and technologies would generate significant value for developing countries (Dincer, 2000). In this context, establishing energy autarky is considered a goal-oriented strategy for sustainable development in a regional environment, not only for developing countries but also for developed countries (Müller et al., 2011).

Against that background, Little Sun created a high-quality solar product that improved the lives of people living off the electric grid (Little Sun, 2017d). As a specific sales promotion, they sell their premium solar product under the model of "buy one, supply one", meaning that for every product sold in an area with access to energy, e.g., Germany, one of the company's business partners can sell a similar solar product at a locally affordable price in a community without access to energy, e.g., a rural area in Ethiopia (Little Sun, 2017e). Thus, the buyer of a Little Sun product is directly connected to a less developed community, as it were, and supports to create sustainable value by helping others helping themselves. This social business approach reflects the core of the embedded innovation paradigm: "[I]nnovation entails the creation of new communities, where "community" consists of diverse people working together to create and sustain interdependent lives. Innovation isn't enabled by new relationships, it is the relationship." (Simanis and Hart, 2009, p. 83).

Product Evolution: From Little Sun to Little Sun Charge

After successfully creating and establishing the Little Sun Original solar powered lamp in the market, Little Sun developed a new product with the Little Sun Charge, as shown in Figure 2. The new product is another step toward decreasing global inequity by offering a portable device that not only provides a solar light but also features a solar charger with 4400 mAh for mobile devices such as mobile phones, cameras, tablets or e-readers (Little Sun, 2017 g). Such an innovative and sustainable charger for mobile devices

Fig. 2: Little Sun's Solar Products

Source: http://www.littlesun.com/shop

is of great importance for developing countries, as the penetration of mobile communication has a significant positive impact on the average growth rate of the gross domestic product, according to a recent multi-country study by Deloitte (2012). Specifically, mobile-phone based applications enable access to services in the financial, agricultural, educational and healthcare sectors (Aker and Mbiti, 2010). Although mobile phones are more and more common in the developing world, affordable and reliable energy is required so that those devices can be truly beneficial (Dobush, 2015). This is exactly the enhanced customer value proposition of the Little Sun Charge.

Considering Little Sun's "buy one, supply one" promotional approach, the lasting social impact of the Little Sun Charge strongly depends on sales in developed countries (economic value) so that an ample number of products can be sold in the respective developing countries. In this regard, Little Sun's highly successful crowdfunding campaign on Kickstarter in September 2015 indicated an encouraging market demand (Kickstarter, 2015). However, to ensure a targeted product launch, Little Sun decided to evaluate the actual market potential and market situation in Germany as one of its core sales markets. Selected results of that market analysis are presented in the next paragraph.

Social Mind Mining Evaluation

Research Background: Goal, Sample and Methods

The aim of the research was to provide a valuable decision basis for Little Sun's marketing efforts. In October 2015, a market analysis was conducted directly after the crowdfunding campaign and approximately eight months ahead of the real product launch. In particular, the aim of the study was to identify a relevant target group by means of market segmentation and to reveal essential information regarding appropriate product positioning in the relevant target group(s). For that reason, an online panel study was conducted. In sum, 395 participants in the age range of 18 to 65 years participated. After answering several consumption questions (e.g., shopping behavior, search habits, lifestyle), the innovative product Little Sun Charge was presented and explained (with visual and textual information). Next, participants evaluated the Little Sun Charge with regard to product perception and product behaviors. To ensure deep customer insights, the response-latency-based measure ProductReact (eye square, 2016) was applied as an efficient implicit measure to avoid participants' response bias regarding social desirability and social approval. The implicit measurement procedure forces participants to decide quickly whether the displayed product attribute fits to the product or not (key allocation: "A" for yes and "L" for no). In more detail, the strength and direction of automatically activated evaluations were captured. Hence, the relevant product attributes (sustainability, sensuality, joy, safety and power) were assessed implicitly using a response-latency-based measure, whereas the relevant product features (charity, design and utility) were evaluated explicitly using a self-report (five-point Likert scale). Additionally, universal structure modeling (USM) was employed, which relies on a Bayesian network approach to quantify nonlinear and interactive effects among model constructs (Buckler and Hennig-Thurau, 2008). The software package Neusrel (2016) was applied to run USM.

Identifying a Potential Target Group

To identify relevant segments, a two-step cluster analysis was applied based on the subject's expressed skills with technological devices, general interest in new products, price sensitivity related to new technological devices and general environmental orientation. As shown in Figure 3, subjects were clustered into three segments based on the Bayesian information criterion (Fraley

Fig. 3: Identified Market Segments

Eco Techies
n = 113

Penny Pinchers
n = 113

Smart Spenders
n = 169

Source: Own Illustration (2017).

and Raftery, 1998). An additional discriminant analysis provided support for this segmentation (Eigenvalue = 11.505; Wilks' Lambda < 0.100, p < 0.001; hit ratio = 99.0 percent). The three different clusters can be characterized as follows:

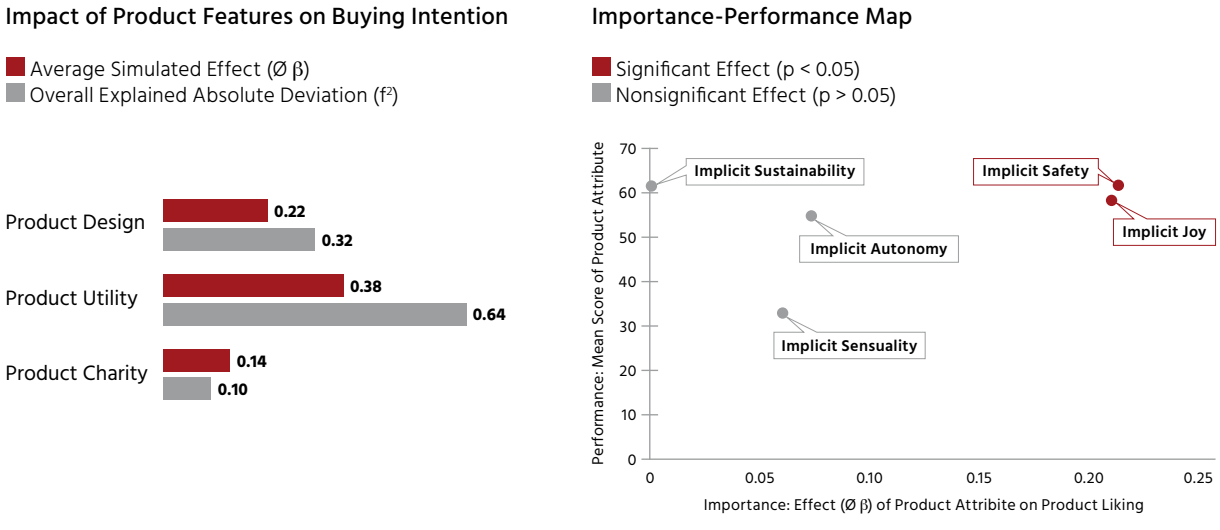
- "Eco Techies" (n = 113, 28.3 percent) – people with a high environmental orientation, technology expertise, interest in new products and a low price sensitivity
- "Penny Pinchers" (n = 113, 28.3 percent) – price sensitive people with a relatively low environmental orientation and a weak interest in new products and technology
- "Smart Spender" (n = 169, 42.4 percent) – price sensitive people with a moderate environmental orientation and technology expertise and an enhanced interest in new products

Accordingly, the segment "Eco Techies" indicated the greatest potential for selling the Little Sun Charge to an appropriate target group covering a relatively balanced gender distribution (female: 43.4 percent; male: 56.6 percent) and a wide age range (min: 18 years, max: 65 years; average age: 43.03 years). In particular, people in this segment are technically adept, open to new products and concerned about the environment. Furthermore, those potential consumers prefer to spend time at home (48.7 percent) or in nature (31.0 percent) and own three or more mobile devices with a rechargeable battery (69.9 percent).

Determining an Impactful Product Positioning

As illustrated in Figure 4, the cause-and-effect relationship analysis using USM indicated significant and positive impacts of all three exogenous variables – product design (Ø β = 0.22, p < .01, f^2 = 0.32), product utility (Ø β = 0.38, p < .01, f^2 = 0.64) and product charity (Ø β = 0.14, p < .05, f^2 = 0.10) – on buying intention as the endogenous variable (R^2 = 0.79). In a further cause-and-effect analysis using USM, the impact of implicit product attributes on overall product liking was estimated. The USM model revealed a substantial predictive accuracy (R^2 = 0.58). Based on those USM estimates and the product attribute's average value, an importance-performance analysis (Eskildsen and Kristensen, 2006) was employed to identify an effective product positioning as presented in Figure 4. Interestingly, in both analyses, the social (product charity) and ethical (implicit sustainability) aspects of the product were less important for the consumer's judgment and decision-making. In fact, the results suggest that the Little Sun Charge must primarily provide a utilitarian (product utility and implicit safety) and hedonic value (implicit joy) for the buyer's own consumption. These findings suggest that a response bias regarding social desirability and social approval was

Fig. 4: Cause-and-Effect Analyses to Determine Effective Product Positioning



Source: Own Illustration (2017).

effectively eliminated by the conducted social mind mining evaluation.

Against the background of both causal analyses, with two of five significant product attributes and three of three significant product features, an effective product positioning of the Little Sun Charge entails the enhancement and strengthening of product-related associations, especially with regard to implicit joy as well as implicit safety, to maximize the perceived customer value proposition. Concretely, the automatic activation of those implicit product attributes should effectively be triggered by essential product features. For example, implicit safety can be addressed by emphasizing how the product's premium quality is related to the product's utility (e.g., showing videos that demonstrate the superior performance of the Little Sun Charge as a robust solar power pack when used under challenging conditions where energy autarky is beneficial, such as camping or hiking). Furthermore, implicit joy might automatically come to the mind of (potential) customers when stressing the product's design (e.g., focusing, in advertising, on style aspects such as the handy lanyard and carabiner hook) as well as the product's charity (e.g., clarifying the social impact of "buy one, supply one" by showing the sustainable improvement of the lives of people in the respective developing countries).

CONCLUSION

Effective from December 2016, Little Sun's social business approach sold 508,148 innovative solar lamps worldwide and positively transformed the lives of 1,224,850 people living off the electrical grid (Little Sun, 2017f). When Little Sun further concentrates their future marketing resources and efforts on the findings of the present research, as they have done until now, then the chances are positive that the

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Little Sun Charge, as the company's latest product innovation, will be another great success in reducing global inequality. In this context, the advanced market research conducted in the presented use case provided an efficient knowledge and decision support platform for Little Sun's management, who gained deep customer insights to support the promotion of product innovation on the supplier side (here, buyers in the developed world). In particular, the social mind mining evaluation carried out was capable of producing essential findings for the identification of a relevant target group; the findings also enabled appropriate product positioning. Especially, the inherent threat of response bias related to social desirability and social approval was effectively eliminated by means of an implicit measure and advanced data technique.

As mentioned in the introduction, a good social intention is only a necessary condition for transforming the lives of disadvantaged groups, in both local as well as global contexts. Fundamentally, such noble business motivation might also be highly profitable when it taps the potential of "serving the world's poor" (Prahalad and Hammond, 2002, p. 4). However, for lasting and impactful success, a social enterprise – as a hybrid construct – requires deep customer in-

Main Propositions

1. A purposeful social business model needs to be financially self-sustaining; then it can be replicated and scaled to achieve maximum social impact.
2. In business ethics, a high level of sensitivity and care is required when considering the negative effects of response biases.
3. Social businesses require sophisticated market research – based on powerful neuromarketing tools and advanced data mining techniques – to better promote innovative products that aim to reduce social deficiencies.

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sights to adapt to the diverse challenges of being a "three-dimensional" company that is embedded between the private and public sectors with boundaries from the market, the state and civil society (Evers et al., 2004). In this regard, innovative and disruptive technologies are efficient means by which creative social enterprises with the support of altruistically oriented societies can transform the lives of billions of disadvantaged people, thus helping to fight inequity locally as well as globally (Hart and Milstein, 2003). This potential is exactly what Bill Gates stressed to the Harvard Alumni Association in his commencement speech in 2007:

"You know more about the world's inequities than the classes that came before. In your years here, I hope you've had a chance to think about how – in this age of accelerating technology – we can finally take on these inequities, and we can solve them."

(Gates, 2007, Harvard Commencement Speech)

Indeed, the current and next generations of technologies provide innovative ways to develop social businesses that "include all of humanity in the capitalist dream" (Hart, 2012, p. 655). Most definitely, as the success story of Little Sun shows, it is possible to "do good and do well".

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