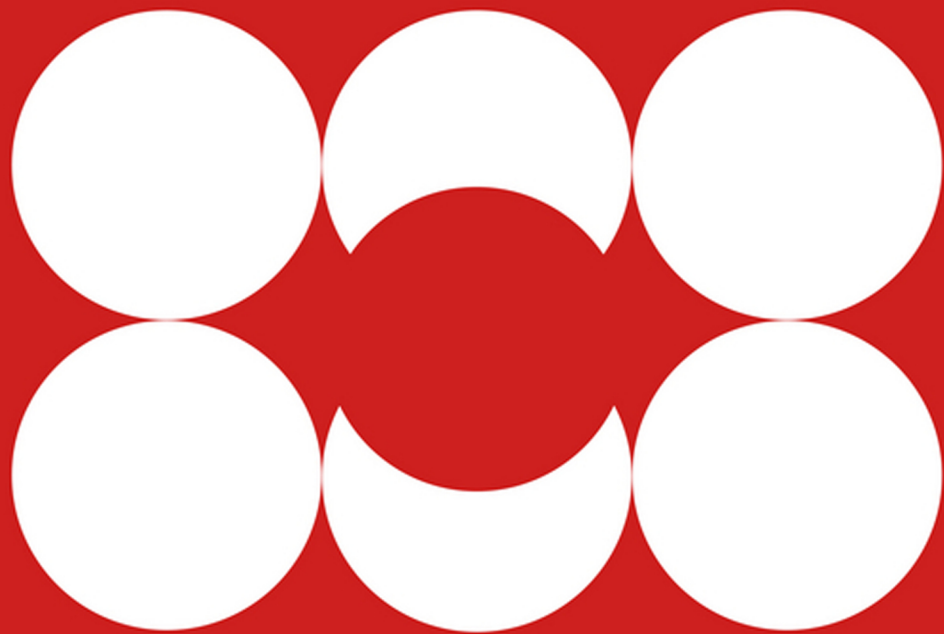


Barry Wacksman
Chris Stutzman


Connected by Design



7 Principles for Business Transformation
Through Functional Integration

JOSSEY-BASS™
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Praise for *Connected by Design*



“R/GA has remained ahead of its competition by reinventing itself, and R/GA’s newest transformation is designed to help brands achieve functional integration. *Connected by Design* outlines how brands like Nike, Google, Amazon, Apple, and McCormick have grown with functional integration and why you’ll want to consider it for your brand.”

— **Rick Boyko**, former director, Virginia Commonwealth University Brandcenter; former chief creative officer, Ogilvy North America

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— **John Gerzema**, chairman and CEO, BAV Consulting, and author, *The Athena Doctrine*

“*Connected by Design* represents the business course you never took but should have taken, and the design class you never had but now wish you did. It prepares your mind and way of thinking for this high-speed world, where more and more value is delivered in the form of digital experiences. Barry Wacksman and Chris Stutzman take you deep into leading companies and share their guiding principles.”

— **Keith Yamashita**, chairman, SY/Partners and SY/Products

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To my muses, Alexandra and Alexander.

— Barry Wacksman

To Tara and Finn, my spark and my sunshine.

— Chris Stutzman

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Introduction



They called it “The Day the World Stopped to Run.”

On August 31, 2008, more than 750,000 people participated in the world’s largest one-day running event, a 10K run called “the Nike+ Human Race.” Ten thousand gathered to run the course on New York’s tiny Randall’s Island and then stayed on after for a rock concert. Tens of thousands more ran through the streets of Melbourne, Australia; along the Kallang River in Singapore; and out of Wembley Stadium in rainy London. Hundreds of other, smaller 10K events were organized that same day in cities and towns all around the globe. Runners logged more than four million miles in total and helped raise millions of dollars for cancer research, wildlife protection, and international refugee relief.¹

Besides its grand and ambitious scale, the 2008 Nike+ Human Race owned another significant distinction. It was the first large-scale public athletic event to fully embrace the digital age. On the day of the race, runners equipped with Nike+ running shoe systems didn’t need to travel to a major city in order to participate. Some never even left their homes. Once they signed up on the

Human Race website and paid the participation fee, they could run the 10K anywhere — on their favorite neighborhood routes or even on their home treadmills.

The \$29 Nike+ iPod kit had been introduced in 2006. It was the first pedometer-like device that allowed runners to automatically record the time, distance, and pace of their runs. The kit comprises a tiny transmitter fitted into a Nike running shoe and a data receiver attached to an Apple iPod Nano. When the iPod is synced with a desktop computer, the running data is transferred to each runner's own registered Nike+ website.

During the 2008 Nike+ Human Race, runners from all over the world logged more than 800,000 miles through their Nike+ iPod kits. All their results were tabulated, ranked, and displayed on Nike's Human Race website. Tunisia was the fastest nation with an average run time of 41 minutes and 2 seconds. Rome, at 49 minutes, 21 seconds, was the fastest city. A U.S. runner with the Nike+ user name "Bibi017" recorded the fastest 10K time that day, at 33 minutes and 59 seconds.²

The data collected by Nike+ on a day-to-day basis provided its users with such helpful information that the Nike brand achieved a new level of relevance in their lives. One early fan of Nike+, a Maryland mom named Veronica Noone, said, "There's something about seeing what you've done, how your pace changes as you go up and down hills, that made me more motivated. I can log in to Nike+ and see what I've done over the past year. That's really powerful for me... The data is right there in white and green." She credited Nike with helping bring her postpregnancy weight down from 225 to 145 pounds.³

Throughout the 1980s and 1990s, Nike connected with consumers by relying on celebrity athlete endorsements and distinctive, groundbreaking advertising campaigns. For its 1987 ad promoting its Revolution line of shoes, Nike paid \$500,000 for the rights to the Beatles' song "Revolution," marking the first time

any Beatles recording had ever been used in a commercial.⁴ The famous “Just Do It” tagline, widely acclaimed as one of the greatest in advertising history, was launched in 1988 and anchored Nike ads for the next 25 years. In 1990, Nike produced a memorable eight-page magazine ad with a “Just Do It” theme aimed at the women’s running market. The ad contained a 377-word ode to female achievement, and when Oprah Winfrey read it aloud on her show, she was moved to tears.⁵

However, the unique connection that the Nike+ iPod kit created with its owners would spark a serious change in Nike’s time-honored marketing practices. Nike’s corporate leadership noticed that Nike+ members who checked in frequently to analyze their running data also bought a lot of Nike products online. The immediate result was an expanded U.S. market share for Nike running shoes following the Nike+ iPod launch. Through the first seven months of 2007, Nike captured 56.7 percent of the \$3.6 billion U.S. running-shoe market, compared with 47.4 percent in 2006. As one market analyst noted, “No question, Nike Plus is one of the primary drivers of the company’s running growth this year.”⁶ By the end of 2008, Nike’s market share had climbed to 61 percent. Another analyst observed, “A significant amount of the growth comes from Nike+.”⁷

Nike responded by pulling back on its TV spending. In 2006, an estimated 70 percent of the company’s advertising dollars had been spent on TV ads alone. By the first half of 2007, Nike reduced the TV advertising share of its ad budget from 70 percent to just 45 percent.⁸ With the Nike+ website drawing some of its most prized customers directly to Nike several times a week, reaching out to them through mass media no longer seemed so important. The company moved away from one-way advertising messages in general and invested in events like the Human Race and online offerings that would attract and involve Nike+ users.

There was also a marked change in Nike's direction as a brand and as a company. Stefan Olander (then Nike's director of digital content and now vice president of its Digital Sport division) stated that Nike+ iPod prompted Nike to reconsider its outlook on innovation. "In the past," Olander said, "the product was the end point of the consumer experience. Now it's the starting point."⁹ By providing each Nike+ runner with a password-protected website of personalized running data, Nike had transformed ordinary Nike customers into active Nike+ *members*. Because of Nike+, the world's number-one athletic footwear and apparel company became something more than a seller of products. Nike+ called on Nike to become a social network provider and the digital home base to what is, in effect, the world's largest running club.

In the years that followed, Nike released a series of run-tracker devices designed to operate with the Nike+ platform. The Nike+ SportBand, released in 2008, was a wristband that removed the need for the iPod receiver attachment. The Nike+ SportWatch GPS, released in 2011, offered improved and advanced analytics for serious runners. Then the 2012 Nike+ FuelBand extended the product line to serve people who want to track their level of everyday physical activity at home and at work. FuelBand marked a considerable departure from the Nike image as a brand dedicated to serious exercise and athletic activity. That year, Nike+ was also released as a free app on the iPhone, so that anyone could join the Nike+ community and track his or her runs through the iPhone accelerometer and GPS without buying any Nike device at all.

In 2013, *Fast Company* magazine rated Nike the world's most innovative company, beating out all the famous tech titans of Silicon Valley.¹⁰ The award marked a milestone in the transformation of Nike as a company. The world's largest seller of athletic apparel was now also a tech company with a wide range of digital products *and* services geared to help people in all kinds of athletic activities. As Olander told a packed house at the 2012 Cannes Lions

advertising festival, “People now demand us not to say ‘Just Do It.’ They say ‘Help me just do it. Enable me to do it.’”¹¹ Nike’s marketers acknowledged as much in August 2013, when they celebrated the twenty-fifth anniversary of “Just Do It” by launching a campaign that claimed to take the tagline “from inspiration to action.” The marketing campaign, dubbed Possibilities, provided Nike+ users with a series of running and activity challenges to be shared with millions of members belonging to “the Nike+ digital ecosystem.”¹²

For decades, Nike had used only advertising images and messages to inspire athletic achievement. Introducing the Nike+ line of digital training tools enabled Nike to help athletes *attain* those achievements. Without fanfare, Nike moved from being a master of mass media consumer engagement to becoming an innovator in *digital consumer services*. In an era when many large companies have been humbled by challenges from disruptive start-up competitors, Nike was among the first large companies to grasp that “help me just do it, enable me to do it” is a rising consumer expectation, one that characterizes the digital age.

- A New Model for a New Century

The story of Nike’s ongoing evolution as a company and a brand provides a vivid example of how digital technologies have redefined the nature of business growth and long-term success. Some of the world’s most valuable and important companies—Amazon, Apple, and Google among them—have staked their futures on cultivating digital ecosystems of interrelated, interdependent products and services similar to the Nike+ platform and its related devices. Apple originated the ecosystem concept and remains its most successful practitioner. Nike learned from Apple through its Nike+ iPod partnership, and became the first traditional consumer products company to develop a substantial digital ecosystem of its own.

Each of these digital ecosystems is defined and supported by a distinctive online platform that functions as both a hub for the brand's digital services and as an invaluable portal to the brand's e-commerce offerings. These ecosystems succeed by nurturing ongoing relationships with the brand's most loyal customers. When such ecosystems are able to deliver consistent, valuable customer experiences, the brand's offerings become so distinctive, appealing, and compelling that brands in certain categories have attained positions of dominant and durable competitive advantage. Apple dominates sales of online music. Amazon dominates online shopping. Google dominates online search. Together, Apple and Google dominate the field of mobile operating systems.

The conception, design, and execution of such ecosystems represent a comprehensive new business model for the digital age. We call this business model *Functional Integration* because it relies on the interdependent dimensions of functionality and integration within ecosystems in order to deliver growth and profits. In line with Apple CEO Tim Cook's description of Apple's ecosystem as having both "breadth and depth,"¹³ functionality describes the breadth of ecosystem elements and devices (iPhone, iPad, iMac), while integration describes the depth of that ecosystem's ability to integrate those elements in a user-friendly way (through Apple's iTunes store, App Store, and iCloud platform).

Growing a functionally integrated ecosystem requires continual innovation in each of these two dimensions. Adding or upgrading functional pieces provides new entry points for customers to join the ecosystem. Improving integration among the interdependent parts of the ecosystem sustains the interest and participation of those customers inside the ecosystem—and encourages them to buy still more functional pieces. "It's a fantastic business model," said Jay Campbell of Hart Research Associates in 2012. "The more [Apple] products you own, the more likely you are to buy more." Hart's research that year found

that 55 million U.S. households owned at least one Apple device (including 61 percent of U.S. households with children) and that the average Apple household owned *three* Apple devices.¹⁴

The Apple ecosystem of devices and services exemplifies Functional Integration in its most fully realized form. As every Apple fanatic knows, a new piece of the Apple ecosystem allows you to unlock additional benefits from all the other pieces you may already own. A new Apple TV set-top box augments your iPhone's capabilities by mirroring the iPhone's videos and photos on the television screen through an integrated feature called AirPlay. A new iPad gains instant access to your computer's documents and browser bookmarks through the integrated iCloud. Music and videos purchased through Apple's iTunes store are instantly available for streaming to all your other Apple devices through iCloud, as well.

Each device and service that Apple offers is connected by design with all the others in multiple ways that reward customers for their increasingly deeper participation in the brand. Apple's ecosystem is aimed at drawing you in, making it ever more gratifying to buy Apple products and shun competitors, including devices that may offer lower prices and more attractive features. With its extremely limited product line, Apple has leveraged the strength of its ecosystem to achieve stratospheric heights of competitive advantage in the otherwise highly commoditized field of consumer electronics. Apple ended 2013 as the most valuable company on earth (in terms of market capitalization)¹⁵ because investors recognize that Apple enjoys a unique and sustainable competitive advantage in a variety of categories. Most of Apple's rivals in smartphones, tablets, and personal computers are overmatched when pitting their stand-alone products against the overwhelming power of Apple's functionally integrated ecosystem.

Google's pursuit of Functional Integration, though not as rigorously disciplined as Apple's, may prove to have far greater reach

in the long run. Growing outward from its online platform as the world's most powerful search engine, Google's functionally integrated ecosystem includes the Android mobile operating system, Apple's most formidable competitor. Google also owns the patents to Motorola's line of mobile phones and runs the Android-based Google Play app store. Other elements of the Google ecosystem include YouTube, Google Maps, Gmail, and dozens of other digital services. A team from our agency, R/GA, helped Google launch its Google Wallet electronic payment system in 2012 as yet another element, or node, in the Google ecosystem. The mobile app is functionally integrated in a wide variety of ways, allowing Gmail subscribers, for instance, to send cash to each other via simple email attachments. Google's long-term experiments with driverless cars, robots, and wearable technology (Google Glass) portend vast possibilities for Functional Integration that defy the imagination.

Amazon's approach to Functional Integration represents the broadest interpretation of Amazon's stated mission, to become the place where everyone "can find and discover anything they might want to buy online."¹⁶ With the world's largest e-commerce site at the core of its ecosystem, Amazon has used it to branch out into the Kindle tablet and e-book reader, the Kindle app store, audiobooks, movie streaming, original video series production, cloud computing services, and door-to-door grocery delivery. Amazon's 2012 purchase of Audible digital audiobooks prompted development of one of the more creative examples of Functional Integration. Readers who buy both e-book and Audible versions of the same title can switch between the two without losing their places, thanks to an Amazon technology called Whispersync.

The prominence of the Amazon, Apple, and Google ecosystems may lead some to the mistaken conclusion that Functional Integration is an aspiration reserved for technology giants. Nothing could be further from the truth. We opened this Introduction with the story of Nike+ in order to underline how any kind of

company—even a sports apparel company—can successfully deploy Functional Integration to create digital offerings that drive growth through consumer utility and customer retention.

A 2013 survey by Placed, a Seattle research firm, showed that the three retailers most threatened by Amazon's ecosystem are Bed, Bath and Beyond, Petsmart, and Toys R Us. Visitors at these retailers, the survey found, are among those most likely to inspect products in the store aisles and then go home and buy them at lower prices through Amazon.¹⁷ Beyond competing head-to-head on price with Amazon, a difficult proposition, each of these retailers has a unique opportunity to use Functional Integration in order to gain back customer interest and secure customer retention. Each company serves a purpose of great importance to consumers—personal comfort, pet care, and child development. For each of them, a functionally integrated strategy that provides customer utility aligned with that retailer's purpose would offer new value in the shopping experience, value that Amazon could never duplicate.

Using Functional Integration in this way, to reimagine the creation of value for customers, is one of the seven fundamental principles we will discuss in the pages to come. Functional Integration calls on each company to reinterpret its mission and purpose in order to create new value propositions that respond to the ever-rising expectations of consumers in a digital, social, and mobile business environment.

Just as Nike's ecosystem has led to a reinterpretation of the company's role in athletic achievement, from apparel maker to digital training services provider, BMW is one of several leading carmakers that is using Functional Integration to reinterpret what it means to be in the auto industry. With the unveiling of its i3 electric vehicle in July 2013, BMW announced the development of a functionally integrated ecosystem of travel, mobility, and maintenance services.¹⁸ And, as with all ecosystems,

the BMW ecosystem is designed to accommodate partners in adjacent and related industry categories, including the car rental and lodging industries. Functionally integrated ecosystems that attract significant numbers of consumers are well positioned to open out into multisided industry platforms, generating new business-to-business revenues for the ecosystem host and all its partners.



Our agency, R/GA, was a part of the Nike+ development effort, and we maintain an internal team dedicated to continual innovation inside the Nike ecosystem. It was out of this close relationship that the term Functional Integration was coined. Our involvement in helping grow the Nike ecosystem required us to take part in all aspects of the work, including product conception, development, and design. It was a far cry from producing microsites, viral videos, and other traditional agency deliverables. The work with Nike was so different from our activities with all our other clients that we needed a new term to describe it. Barry Wacksman, R/GA's chief growth officer, developed the concept of Functional Integration in 2011, and it was introduced by R/GA that year at the 58th Cannes Lions International Festival of Creativity.

Since then, R/GA has continued to evolve as a digital agency, reinventing its business model to become a partner with its client companies in the process of helping them achieve Functional Integration. In 2012, R/GA brought on Chris Stutzman as its first managing director of business transformation and Jeff Mancini as its first vice president of product innovation. Chris is a veteran of Forrester Research, where he advised marketing executives on growing their brands through digital innovation. Jeff is a digital

industry veteran who had formerly directed digital strategy at Interbrand.

Together, Chris and Jeff are R/GA's leaders and resident experts in the field of digital transformation consulting. They have assembled a team in the areas of business consulting, brand consulting, and innovation consulting to work alongside data analysts and strategists in communications insights, experience insights, and media/connections insights—forming what we call the “thinking” half of R/GA. These “thinkers” provide ideas and concepts to an even larger team of “makers”—designers, programmers, copywriters, project managers, and quality assurance testers—needed to build and manage the digital services and connected devices that bring Functional Integration to life.

R/GA has moved in this direction because we have seen, through our original research and client work, that Functional Integration is the emergent strategy of a new class of companies that are winning in the marketplace. Perpetual innovation and growth in mobile, social, and digital technologies all but guarantee that Functional Integration has become an essential business model for brands that want to keep up and give their customers new reasons to love them. We believe that industry-leading brands, in particular, need to pursue Functional Integration as a primary business model in order to retain precious brand equity and to remain relevant to their customers.

At the same time, we see how traditional strategies in advertising and marketing are losing traction with the public. In 2013, for the first time ever, the Interbrand 100 ranking of global brands placed two functionally integrated companies, Apple and Google, at the top of the list. Coca-Cola, which had held first place for fourteen years running, fell to third. In what might prove to be a watershed year for Functional Integration, three of the top five companies ranking highest in brand value growth were the three companies with model functionally integrated

ecosystems: Apple, Google, and Amazon. Nike and BMW also saw double-digit growth in brand value that same year. Other perennially high-ranking brands, including Coke and Microsoft, were limited to growth in single digits.¹⁹

Such firms' traditional business model of creating products and then marketing them through mass advertising continues to fall in reliability, as the media environment fragments and loses its influence, especially among younger people. The Interbrand rankings provide evidence that Functional Integration represents a bulwark against this erosion of brand power at a time when product-by-product differentiation is proving more difficult than ever.

But the switch to Functional Integration is also difficult. Our experience has shown us the considerable cultural issues, obstacles, and pitfalls that every company faces in taking on the Functional Integration business model. Ecosystems require a depth of relationship with customers that few brands are prepared to accommodate. It also requires a depth of commitment on the company's part. Free digital tools such as Nike+, Gmail, and iTunes offer implied promises of a lifetime of cost-free support, and many of the functional and integrated additions to the ecosystem will not offer predictable streams of revenue or profits. (Apple, for instance, claims to run its App Store on a break-even basis.) Functional Integration has the power to transform your company, but only when it is engaged as a long-term play toward creating a sustainable competitive advantage.

- o Structure of the Book

Every company follows a distinctive path toward Functional Integration, but we have found that certain principles apply to all who have proven to be most successful at it. We have organized the discussion of these seven principles in two parts. Part One of the book