

How Hits Happen

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The Big Idea

Winslow Farrell applies the theories of complexity to modern business systems. How Hits Happen explains how media hits like the film “Titanic”, or high-demand phenomena like Tickle-Me-Elmo dolls or Tomagotchi occur, much like predictable natural phenomena as weather. Farrell’s group specializes in building market behavior simulators on computers. PriceWaterhouse Coopers clients come to Farrell and the Emergent Solutions Group, asking for strategic models of their new products and ideas, to scientifically study and test whether their business idea will become the next big thing, or an expensive flop.

Introduction

Economist Brian Arthur calls it a theory of “increasing returns”, which governs the Web, where a networked economy operates following laws of the same dynamic: like-minded individuals flock to the same Web sites, becoming the niche that companies target.

Human behavior and response to a new idea or product can be predicted in a simulated or artificial world of consumers.

The Internet has changed the metabolism of product life cycles and has made the patterns we find in markets move faster, reflecting the music, clothing, and lifestyle choices of markets worldwide.

Fads, Fashions, and Failures

Consider the 1990’s Seattle grunge movement or the hit phenomenon Hootie and the Blowfish. These bands became popular when the buzz about them was created through alternative college radio programs and rapid word-of-mouth. In one year, Hootie and the Blowfish sold more than 13 million copies of their album.

Managers prefer simple choice rather than an essay question when responding to how we are to surf the waves of demand. Just like real surfing, business leaders need to watch the waves before they rise, and intuitively know exactly when to get on it, and how to make adjustments to ride the wave for as long as possible.

The Complexity Theory draws from a postmodern view of the world. It is based on quantum physics and existentialist philosophy rather than Newtonian physics and Cartesian thought. When analyzing market fads and flops, we throw away the conventional scientific method, and use a non-linear theory as complexity, which embraces randomness and chaos.

Complexity is the study of complex adaptive systems. From how a standing ovation starts and moves through an audience, to an embryo dividing and subdividing to become a human fetus, these are systems that take on a life of their own.

The three key principles revealed in the study of fads and fashions in these artificial worlds of consumers are:

- Time matters.
- More is different.
- Learning is living.

Time matters

In complex systems, time determines the future. Consider how the Japanese made wise use of time to tilt the market towards the use of VHS as against Betamax. Over time, more consumers chose to use VHS because it was more readily available, compatible with other equipment, and easy to use.

More is different

You simply cannot add up individual preferences to see how grunge music became a hit phenomenon. Interactions between people are the guiding forces behind a mass hit. The important thing to look for is the developing patterns in markets.

Learning is living

Most organisms start out simple then become complex as they grow. Businesses are pretty much the same. Ideas spread like an epidemic. People share information and ideas as fast as technology allows. The Napster phenomenon is a clear example of this complexity.

Anatomy of a Hit

Two words: Elvis Presley.

Post-war American teens were looking for someone to call their own. With the emergence of a middle class and young people with disposable income, Elvis was the first to benefit from the media hit composed of the new buying class - the youth subculture.

Other hits: Harry Potter happened lightning fast, while the fax machine only became widespread in use ten years ago, almost a hundred years after the technology it was based on was invented. Some hits spread like wildfire, while others take many years to gain an accumulated effect over time. The film Titanic was a big hit around the world, but in its own slow-moving, steady build-up through word of mouth, The Full Monty was more profitable in terms of tickets sold against production cost. This independent low budget film made more than four times more than its break-even point of 3.5 million dollars. The older audience demographic took a longer time to spread than the Titanic, but The Full Monty became a hit without the marketing hype typical of other films. The film became its own marketing tool.

So what makes a person decide to buy something? Complexity offers a new way of seeing what causes a product to leap out of the crowded marketplace and earn a lasting place in it.

Hits are composed of a great number of people coming to the same frame of mind simultaneously, without anyone forcing them to do so. As patterns of people interacting emerge, their collective behavior goes through nonlinear leaps and properties change fundamentally like a mass of protein comes to form a living body.

Natural Advice from the Synthetic World

Interestingly, we compare human market behavior like bees and animals in the natural world. The dopamine effect, or the risk versus reward factor, plays a great role in the simulation of these artificial markets or worlds. Humans take a risk (purchase) depending on the reward and their past experience.

Macy's stores record every customer purchase date, time, and other data for market analysis. General retail department stores need to cater to a diverse clientele, while small boutique stores can be designed to that particular market's preferences, thus each has a way of turning the shop browser into a buyer.

Computer simulations help people who are all too often too afraid to tamper with real systems. Today's computer simulations expand out capability to foresee possible outcomes. They have speed and power to create thousands of potential outcomes derived from one key starting point.

People try to study how the market works by writing equations representing stocks and flows but the actual working of a market are generated through an unpredictable set of interactions between buyers, sellers, consumers, advertisers, and sales environments.

Hit Factories

In media or entertainment, and branded products, ego is so intrinsically bound into the product that the emotional return on investment is great. Consumers' minds and hearts are stolen and this is what we call a 'Lock-in'. If you don't have the latest gadget, toy, or clothing item considered standard in your peer group or social environment, then you just aren't cool.

It's all about human interaction, stupid

People connect to each other with popular products. Cell phones and telephones are useless if you are the only one who owns one. Your new sneakers mean nothing to tribes in New Guinea, but they are a prize possession on the inner city streets of Chicago.

We are what we buy.

Basically identifying and categorizing people according to their ethnic origin or religion is passé. We used to classify people as WASPs or white Anglo-Saxon Protestants, for instance. Today we would define ourselves as "Starbucks decaf soy latte drinking, Vanity Fair-reading, Lonely Planet types".

Consider the Spice Girls. They appealed to tightly knit network of pre-teens who loved their music, look, and attitude. "Girl Power" was in vogue because of the growth and promotion of women's sports and female athletes and strong females in television and film. Selling 14 million albums and 20 million singles in under a year, and with a savvy promoter, the pop group soon became a brand name.

Then there is Martha Stewart. The Fully branded American homemaker. She is the goddess that embodies the Kmart shopper's sense of self. From color-coordinated beddings and towels to the best gardening tools, Martha represents a carefully crafted system sparked by conversations, shopping experiences, and a general cultural buzz. An empire of \$200 million stands as proof of her ability to converge her distribution networks. Her system is extremely adaptive and evolves along with the desires of customers.

Complexity as Competitive Advantage

Surfing is a terrific metaphor for riding the waves of consumer demand and studying complex adaptive systems. It takes great experience and knowledge for a surfer to be able to maneuver his way and stay with a wave as it changes shape and direction.

As an industry evolves, its products, processes and managerial belief systems and consumer habits evolve from a simple to a complex state.

The first cars all looked the same: black Ford Model T's. Over time, consumer demands dictated the need for more colors, designs and features like ashtrays and AM/FM radio.

Surfing the Waves of Demand

Even if you are the first to enter the market, it doesn't guarantee you will win the market. You don't always need to be first to own the market, but you will prevail only if you gain sufficient mind and market share.

It would be better for your business if you try to see several different possibilities and futures, rather than just one or two. Try to understand what competitors are doing as well as the entire industry and its development.

Here are some simple takeaways from our studies and theories that you can apply to your business, and help you surf the market:

Open big. Stage a big event or opening for your film, book, or product. Build up the anticipation level prior to release and spread the word in key locations, stores, schools, or areas where you know your target hangs out

Find and nourish small worlds. Recognize loudmouths who can reinforce the message and know how well they are connected. Think of how small the world really is, if you are familiar with the idea from Six Degrees of Separation, every human being probably knows someone who knows someone...who knows you. So get your "cool hunters" out on the streets with your latest CD or product and network.

Appeal to braggarts. Some people absolutely love being defined by what they consume. The product is part of their personality and lifestyle and makes a clear statement about the person. Fashion forward types like being the first risk-takers in their peer group, for instance.

Be different, but not too different. You may have your brand extensions like Diet Coke, but still remain familiar and keep the trust with your consumers.

Get the positive buzz out. Start chat room conversations with enthusiastic reviews. Start chat rooms for fans. Seed press articles or place teasers in surprising places.

Give 'em prizes to take home. T-shirts matter. Merchandise tie-ins have benefited the film industry like no other. From action hero dolls, to shirts, caps, mugs and other merchandise, markets gobble up these items especially when it is a hit for kids.

Look for "daylight" to run in. Launch the news during a slow news day, the non-holiday promotion. Film studio executives know that the date of release and first weekend ticket sales are key to the success of a film. Television programmers follow a decades old formula: prime time.

Experiment and learn. Explore different marketing approaches. Get off the beaten track and go where none like you have gone before. It just might work. Go-Gurt and Dryel are results of experiments.

Build simultaneous multiple strategies. Be prepared to react quickly to any scenario rather than selecting one strategy ahead of time.

Get out. Just as theater owners quickly move films to make room for the next blockbuster, you too should be ready to replace your hit with the next big thing.

Where hits happen

Whether its Tommy Hilfiger, grunge fashion, or upper class New York, style gives the wearer a badge of awareness and belonging. Go to a party, a bar or any place where people from the same industry, or group gather, and you will find people dress similarly. When one person introduces a new style to the group, thereby upsetting the equilibrium, it is up to the group to accept or reject it. If nobody likes the new style, that person will be thought of as unfashionable but if everyone likes it, the others will incorporate it into their own wardrobes. The popularity of the group also affects whether the style will spread throughout the community.

Evergreens

Perennially valuable brands like Mickey Mouse have a permanent lock-in. Star Wars and Tickle Me Elmo can be seen as Evergreens. The greatest hits of all time have a demand because they delight kids or adults of any generation.

Bursts of demand are classified as NLEs or non-linear events. Small bands of moviegoers may lead to legions of early adopters, and then waves of fans all talking about a great little film called The Full Monty.

Key questions

For an executive whose business may be shaped by the nonlinear events, the questions are:

Do NLE's happen in my industry?

Do I know what to look for in terms of their shape, persistence, and life cycle?

Once I detect and NLE, what can I do to fan the fire in terms of promotion, advertising, free trials?

How can I use word-of-mouth to my advantage?

If I miss this event, will there be another opportunity?

Hits in Real Time

Hits on the Internet happen faster and word of mouth flies. Since the capacity for word of mouth to spread so fast on the Internet through chat rooms, email and bulletin boards it is more prone to the laws of increasing returns.

Websites that become hits are those that are known and classified as cool by Yahoo or another arbiter of taste. Without a critical mass, sites lose their energy. Web sites should be able to draw attention to themselves and spread conversations constantly. One of cyberspace's great success stories is Motley Fool. An irreverent pair of brothers David and Tom Gardner posted their investment newsletter of a few hundred subscribers out on AOL. Fans conversed about hot stocks, and swapped information. The Gardners grew their website and business, adapting their product into weekly e-mailings, industry reports, t-shirts, hats, and a string of investment books. On the Internet, the operative word is cool.

One of the most important qualities of the Web is the fact it conducts transactions and conversations in near real-time. The result is mouse clicks, page requests, send to a friend emails, and software downloads. Trying to understand why groups of people all visit the same site and stay there is key to understanding this complex living system.

How hits persist

Perhaps we can build a model or machine that simulates how like-minded people gather together around one idea to make it a hit. This could help managers ask what-if and look at emerging patterns.

Who could have predicted the overwhelming public reaction to the death of Princess Diana? It will be highly unlikely we could build a forecasting machine to generate human-like thought but we may only need an early warning device. One cannot compute for human behavior, but we can try to understand how things happen all around us. People aren't exactly as simple as bees, and people will follow opinion leaders for a variety of reasons we cannot simply calculate or add up.

Follow the leader

From synthetic people in our models we see that people who are correct early on become fashion leaders and risk takers and innovators. Large portions of the population will stand behind these people, watching what they do, and seeing if this is acceptable. When enough followers agree this new behavior is acceptable and do it themselves, the whole system lifts off and moves.

The eternal question Yes, you know it generated sales and hit the targets But how did it happen?. How Hits Happen " or, What Was The Tipping Point?.. How Hits Happen or, What Was The Tipping Point? Dan Calladine. How Hits Happen " or, What Was The Tipping Point? The eternal question Yes, you know it generated sales and hit the targets But how did it happen? How Hits Happen " or, What Was The Tipping Point?