

Answers to Food for Thought Questions for
Managing Customer Experience and Relationships:
A Strategic Framework
Third Edition
by Don Peppers and Martha Rogers

First Edition answers by Maureen Morrin

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Chapter 1: Evolution of Relationships with Customers and Strategic Customer Experiences

1. Understanding customers is not a new idea. Mass marketers have done it for years. But because they see everyone in a market as being alike (or at least everyone in a niche or a segment as being alike) they "understand" Customer A by asking 1,200 (or so) total strangers in a sample group from A's segment a few questions, then extrapolate the average results to the rest of the segment, including A. This is logical if all customers in a group are viewed as homogeneous. What will a company likely do differently in terms of understanding customers if it is able to see one customer at a time, remember what each tells it, and treat different customers differently?

Companies will gather census data, not just samples. At its core CRM is based on treating different customers differently. This involves:

- Maintaining accurate, individualized information on customers that provides greater learning and insight over time.
- Tailoring communications and products/services to individual customers' needs.
- Anticipating and acting to prevent customer defection.
- Gaining insight into the particular needs that individual customers have, based on information about each customer, individually, including the customer's past transactions and interactions.
- Maximizing customers' value to the enterprise by capturing a greater share of their lifetime purchases.
- Focusing on enhancing customer value and profitability to the enterprise rather than on traditional market share metrics.

The dynamic will change from one of adversaries in a transactional exchange to partners in an ongoing collaboration. Obviously, an enterprise cannot interact, exchange ideas, or collaborate with a segment or a population of customers—but it can do with only with one customer at a time.

2. If retention is so much more profitable than acquisition, why have companies persisted for so long in spending more on getting new customers than keeping the ones they have? What would persuade them to change course?

Enterprises' traditional focus on customer acquisition was evident in their efforts to gain a greater share of the total marketplace (percentage of all customers), rather than on gaining greater shares of individual customers (percentage of each customer's lifetime sales). Enterprises tried to differentiate products for large groups of homogeneous

customers rather than trying to differentiate their customers and their needs, for several reasons:

- They had no real faith in the enterprise's or brand's product/service superiority due to the commoditization of product offerings in mass-market settings.
- Technology costs prevented all but the largest and most advanced enterprises from collecting and effectively using customer data.
- Sales representatives had traditionally been rewarded on the basis of new customers brought in rather than current customers retained.
- It may not have seemed as exciting for managers to focus on retention activities compared to mass-market acquisition efforts (e.g., splashy new advertising campaigns).
- Traditional advertising agencies and other support agencies were not geared toward providing services that focused on retention efforts and thus lacked the incentive to offer such recommendations.

Ultimately, *getting* customers is a task we can foist on the marketing department. *Keeping* customers will require an integrated effort of the entire organization.

A variety of things might convince a company to change this acquisition-only course:

- If a business determines that customer acquisition is becoming too expensive as a market matures, it might concentrate more on retention. Once most people have acquired a mobile phone in any given market, for instance, mobile companies rapidly shift their efforts to customer retention.
- Competitive pressure, perhaps from a new entrant with a different kind of business model, will often stimulate acquisition-only companies to reconsider their course.
- A chronic service or quality problem may compel a company to begin concentrating on customer-centric issues.
- Even with no service issues or changes in the competitive mix, however, as technology permits more and more companies to treat their customers in a more personalized fashion, customer expectations will rise, calling old business practices increasingly into question.

3. How can we account for the upheaval in orientation from focusing on product profitability to focusing on customer profitability? If it's such a good idea, why didn't companies operate from the perspective of building customer value fifty years ago?

Fifty years ago, modern economies were in the heyday of mass production and mass marketing efforts. At that time there were several barriers to customer-centric strategies:

- The technology necessary to implement such strategies was nonexistent or too expensive.

- Both the operational (e.g., computer systems and software) and analytical (e.g., availability of advanced modeling techniques such as logistic regression in commonly available statistical packages such as SAS and SPSS) aspects of CRM were less developed than they are today.
- Factory production processes that allow mass customization efforts were largely unavailable at the time.
- Less brand switching took place, with higher levels of customer loyalty evident in the marketplace.
- Managers felt less competitive pressures before the onslaught of product proliferation, with fewer products competing for a given set of customers.
- As long as there was a steadily rising demand for new categories of products in a market, managers could grow their business by capturing their fair share of that rising demand. Even today, when radically new, original, or unique products or services come to market, growth in overall demand can often be sufficient to drive business success (e.g., Facebook or the iPhone). This implies that customer relationship management can be a less important part of business strategy in a less developed, but rapidly growing economy, even today.

4. In the age of information (and interactivity), what will happen to the four Ps, traditional advertising, and branding?

The emphasis will shift from using the four Ps to acquire customers to enlisting the four Ps to better serve individual customers in the current customer franchise.

- **Product.** Products and services will be tailored to individual customers' needs and desires.
- **Price.** Greater variation in prices will emerge, as increased values result from tailored products better meeting customers' needs. There will be less emphasis on simple price-cutting strategies to grow sales. Customers, in turn, will become less price sensitive with the emergence of decommunitized products, for example, products and services that reflect their unique needs and wants.
- **Promotion and advertising.** There will be a move away from mass campaigns (e.g., network television advertising) toward more individualized communications delivered mostly via online channels, and so on.
- **Place.** The trend toward disintermediation will grow, as sellers deliver customized offerings directly to customers in more efficient ways.
- **Branding.** Its importance will increase as customers' trust in brands' ability to deliver exactly what they want grows. But the brand bond will be based less on feelings of fondness and more on feelings of trust that the brand will deliver exactly what the customer wants based on specific prior learning experiences and interactions with the enterprise and brand.

5. “The new interactive technologies are not enough to cement a relationship, because companies need to change their behavior toward a customer and not just their communication.” Explain what this statement means. Do you agree or disagree?

It will always be advantageous for a company to communicate with a customer in a way that reflects that customer’s preferences or needs. But in a genuine relationship communication flows two ways. Communication from the customer to the company might come in the form of explicit requests or suggestions, or it simply results from the company keeping track of the customer’s routine transactions and choices. Either way, information is flowing from the customer to the enterprise and not just from the enterprise to the customer. Information coming from the customer should provide the company with more and more insight into the customer’s needs and preferences.

But in addition to two-way communication, a relationship should have an impact on the behavior of each party. The company’s goal is to change the customer’s behavior, of course—this is the primary objective of any marketing program. But if a customer provides a company with relevant information about her preferences and then sees no change in the company’s behavior toward her, do we think she will consider this to be a genuine relationship?

Chapter 2: The Thinking behind Customer Relationships That Leads to Good Experiences

1. Based on what we now know about the essence of relationships, is it possible for a customer to have a relationship with a commercial (or other) firm? Is it possible for a customer to have a relationship with a brand? Is it possible for a firm to have a relationship with a customer—especially a customer who is one of millions of customers? If you said no to any of these, what conditions would have to be met before a relationship would be possible?

Most would agree that it is possible for a customer to have a relationship with a firm, whether that relationship is based on more functional reasons such as the need for convenience, or more emotional reasons such as a genuine preference for the firm's offerings. We would further argue that it is also not only possible for a firm to have a relationship with a customer, but necessary for a firm to have a relationship with a customer if customers are to have relationships with firms, since the key aspect of a relationship is its mutuality. Thus the firm needs to be aware of the individual customer's existence, in addition to the customer having positive attitudes toward or dependence on the brand or firm, in order for a true relationship to be possible. Because relationships require interaction, brand preference or favorable brand attitudes do not constitute a relationship, at least as relationships have been defined in the basic disciplines such as psychology. In today's marketplace, for a firm to have a relationship with a customer, when that customer is one of millions, it is also necessary that the firm have the technological capability of capturing, analyzing, and utilizing information on individual customers that will allow it to respond to the customer in a unique manner.

2. Barnes says an important ingredient to a good relationship is an emotional connection, but customer relationships have elsewhere been referred to as a "bond of value" or a "bond of convenience." What do you think? Do customers have to love a product or company in order to have a relationship with that enterprise? Or is a perceived benefit—especially one that grows from a vested interest—enough?

There is some disagreement over whether or not emotions or feelings are necessary in order for a relationship to exist. It could be argued that emotional connections are not necessary for a relationship between a firm and customer to exist, but that what is necessary, at a minimum, is a two-way awareness level. For example, relationships can be based on reasons of convenience, efficiency, and transaction costs, in addition to or in place of emotional attachments. Further, it can be questioned whether most enterprises truly possess emotional attachments to their customers, or whether they merely create the conditions necessary for their customers to develop emotional attachments to their product offerings.

However, many would agree that the depth and quality of relationships between buyers and sellers are often reflected in a degree of emotional attachment, especially as expressed in levels of trust. Relationships are created between buyers and sellers when they move beyond mere anonymous exchanges or single transactions. A consumer does not necessarily need to fall in love with a brand or an enterprise for a relationship to exist. However, the consumer likely needs to develop at least a basic level of trust in the brand or the firm, and the firm needs to be aware of the individual customer, in order for a relationship to be said to exist.

3. Assume that there exists asymmetrical dependence between a buyer and a seller. Answer the following questions two ways: First, assume the buyer is more dependent; next, assume the seller is more dependent.

- a. How do you reduce uncertainty if you are a buyer? A seller?**
- b. Will there always be some transactional purchases?**
- c. How is the relationship with your buyers/sellers different from the way it would be with symmetrical interdependence?**

The more vulnerable member of a relationship can reduce his dependence by either developing additional relationships with others or by increasing his value to the existing relationship. If the buyer is the more dependent member, the buyer can reduce uncertainty by finding other brands to purchase as substitutes to his current brand. Or, the customer could buy a larger proportion of his needs in that product category from the enterprise and thereby increase his value to the firm. The customer could also try to ensure that the firm recognized his purchase level by active contact with the firm.

A more vulnerable seller could reduce uncertainty in the relationship by increasing the size of her customer base so as to reduce dependence on the current set of customers. Alternatively, the seller could increase her value to their current set of customers by getting to know them better, including their product needs and wants, and thereby making her company more indispensable to customers. The seller could try to enhance her company's value in the relationship by upselling and cross-selling current customers, who would then become more dependent on the firm for meeting their needs.

There will always be some transactional purchases, if for no other reason than because not all first-time customers can be converted into repeat users.

With symmetrical dependence the relationship would be different in that both the buyer and seller would respect and trust the other to provide for their needs, and there would be less effort expended on finding alternative sources to fulfill their needs. The relationships would be more stable and more efficient for both parties.

4. Pick a brand that you will always buy. What happened specifically to create this loyalty from you? Is there anything that could dissolve your loyalty or make it stronger?

Usually we become loyal to brands that we think are “just for us” in a way that would be difficult to duplicate with another brand. This is often the result of an emotional attachment we can’t easily explain, but it can also result from the overt actions of a brand that are “in our interest” or that “acknowledge us” in a personal way. Extreme loyalty might happen when:

- We have had some kind of interaction, or even a service or quality problem, that resulted in our feeling that the company knows and remembers us, or changed how it treats us to accommodate our needs. If you had bought a product at a retail store and it didn’t work satisfactorily, but when you returned it to the store the store insisted on making it right with another product or no-questions-asked refund, for instance, then you might find yourself becoming very loyal to that retailer. If this were to happen more than once, or if two different kinds of problems or issues were resolved to your complete satisfaction, then your loyalty would be cemented. To pry you away from dealing with that retailer, a competitor would have to offer a very substantial price advantage, and you would only be comfortable with them once you felt they offered the same level of service.
- We feel that a brand is always acting in a way that respects our own interests. That is, the advice from the brand, and the selling message itself, is based on how our own interest will be best served. For instance, if a company suggests a lower priced product than we were willing to consider, because in their opinion it would meet our needs just as well, then we are likely to become loyal to that company, because even though the company could have made a better profit for itself, it chose to act in *our* interest. So we trust it, and we will tend to want to deal with this brand, because it’s more likely to be in our own interest to do so.
- We have some other kind of emotional attachment to the brand—perhaps a parent or family member uses this brand, or perhaps we’ve just become extremely comfortable with it. Or we believe it expresses our own image of ourselves.

Regardless of what particular events actually elicit our feelings, in most cases we are likely to be extremely loyal to a brand when we *feel* loyal to it, in the same way we feel loyal to a good friend. Probably the strongest forms of customer loyalty, in other words, are emotionally based, even though in many cases these emotions might originate with our reaction to an interaction or a service issue.

Chapter 3: Customer Relationships: Basic Building Blocks of IDIC and Trust

1. Think about the companies you do business with as a customer. Name an example of a company that identified and recognized you, one that differentiated you by need or value, one that has made interaction easy and fun, and one that has changed something about the way it does business with you now, based on what it knows about you.

Students will have numerous responses to this question based on their own personal experiences. Many will have experienced the personalization efforts of Amazon.com, with book recommendations, and so on. Other students may have descriptions based on life-changing experiences such as marriage or the birth of a baby, which prompted event-related offers. Some may even relate experiences of being treated more poorly than expected perhaps based on their low status in a customer database (e.g., being put on hold for extended periods by a credit card company, when they use the card little and always pay off their balances in full each month).

An interesting project that instructors may choose to assign to enhance the responses to this question involves having students respond to a particular offer at the start of the semester, using their name with a unique middle initial, and then to track the resulting offers and communications that result during the remainder of the semester (identifiable with the unique middle initial). Students can evaluate the appropriateness of the trail of offers that results. Alternatively, have students set up a series of new e-mail addresses for themselves, each with a slightly different name or number. E-mail addresses are easy to come by at Web sites such as Yahoo or Hotmail. Each new e-mail address, however, should be used *only* to register at *one* e-commerce Web site at a time. Students should create a fictional profile for themselves, and then check all the boxes for “contact me”—for promotions, news, offers from partners, and so forth. Then see what kinds of offers come back to each different e-mail address, and how frequently.

2. Do you agree or disagree that a relationship must always be characterized by some level of emotional involvement? Why?

Students’ opinions will vary in response to this issue. Most will probably argue that, while an emotional attachment is usually involved in relationships between firms and customers, this is not always the case. One example could be a customer who signs up for a loyalty program to accumulate points toward future purchases or upgrades, yet who feels no emotional attachment to the provider. Many airline patrons may fit this example, especially if the customer uses an airline because she must (e.g., if the airline

accounts for the majority of traffic in and out of her local airport). The customer has developed a relationship with the airline with evidence of mutuality in behaviors, but she feels no emotional attachment toward it. Indeed, if another major competitor entered the market, the customer might easily decide to develop a relationship with the new airline, with or without an emotional attachment, as the situation dictated.

This question is closely related to question 5 in Chapter 2, asking students to consider one brand to which they are extremely loyal, and then to think about the factors that account for their loyalty. In most cases, “extreme” loyalty will almost always involve some kind of emotional attachment. Similarly, a very strong relationship is likely to involve emotion, and not just convenience or practicality. Convenience and practicality are always useful and important, but emotional attachment will result from repeated use and familiarity, as well as from the feeling of trust that is more likely to develop with time.

3. Now that you've read Green's essay on trust, can you think of examples of companies that have little or no self-orientation? What are the signs that a company has too much self-orientation? (Check the company's stock performance for the last fifteen years.)

Students may generate many examples of firms that have too much self-orientation based on their own personal experiences. For example, they may cite their local television cable company as not being responsive to their needs, whether it has to do with arranging for service installation, service reps not coming when they said they would, being put on hold during phone calls for interminable amounts of time, having their rates persistently increased over time without cost justification, and so forth. Students may also cite health insurance companies they have dealt with or heard about as being too self-oriented. Their experiences in obtaining referrals or reimbursement for procedures may serve as the basis for their perceptions of health insurance firms as being primarily profit-driven rather than customer-driven in their interactions with customers. Some students may even mention political candidates who promise the world during campaign speeches but then do not deliver on those promises once elected. Such behavior will appear highly self-oriented to some, as it's another version of a “me-first,” bottom-line orientation. For students familiar with customer service at companies in more than one country (perhaps from having lived abroad for a period), it is likely that their impressions of customer service in each country will be different.

4. Within the last few years we have seen many examples of the breakdown between company governance and stakeholder interests. Do you think these corporate scandals might have played out differently if the corporations involved had built their businesses on the basis of becoming trusted agents for their customers? Is it really possible for companies to be trusted?

Some students may argue that dishonest and selfish individuals will always exist in the business world, as in other spheres of influence, and that no type of corporate orientation, customer focused or not, trust oriented or not, will be capable of altering such behavior. Others may be more optimistic and suggest that if a strong managerial focus on developing customer trust is infused throughout the organization, then, at a minimum, individual efforts at odds with such an approach will be “outed” early on, rather than filtering throughout the organization’s players without being revealed. This is an ideal time to discuss how the financial crisis of 2008 might have played out differently, had the bankers involved been truly long-term-customer oriented, rather than short-term profit oriented. For that matter, however, the same question could be asked of the politicians who encouraged so much lending. Why did they relax the rules so much? Was it a civic-minded purpose, or a vote-getting purpose?

There is also a constant tension between the interests of an individual employee and the interests of her employer. The employee (the “agent,” in economic terms) wants to further her own self-interest, in the form of a sales commission or bonus, while the employer wants to create value for its shareholders. These interests are often in conflict, but there are some kinds of employment policies which will minimize this conflict.

Chapter 4: Identifying Customers

1. Describe and name two companies you have done business with as a customer. One of them treats you as though you are a new customer every time you show up, or at least any time you show up anywhere you haven't done business with the company before. At the other company, you are recognized as you every time you have any dealings with the company. What's the effect on you of these disparate approaches? How would you guess each company manages its data, given their different approaches to customers?

Students may decide to choose two examples either in the same industry (such as restaurants) or in different industries. An example comparing McDonald's with Starbucks is provided below.

Starbucks:

"I patronize primarily a single outlet located close to my place of employment, although I will buy coffee from other Starbucks locations as the need arises. The employees, or baristas, know my regular order and start pouring it even before I arrive at the cash register to place the order. They give me the impression they appreciate my return and repeat business and seem to be genuinely happy to see me. They also give the impression that they like their jobs. While Starbucks is not currently collecting data on my behavior, they are building the foundation for a relationship."

McDonald's:

"I frequent several McDonald's outlets, but about half of my visits take place at the outlet located closest to my home. I have never been recognized as a repeat customer by the employees/servers at this outlet or any other. Indeed, the servers are often surly and give me the impression that my order is an intrusion to what they were otherwise engaged in. There appears to be a high level of turnover of employees, so that it is rare to encounter the same server from one visit to the next. I suspect these employees have received different training than the employees at Starbucks, and they are generally less motivated to provide high levels of customer service. Indeed, they may be ashamed of their position as 'burger flipper,' even though their compensation may not be all that different from that of Starbucks employees."

The effect on my behavior is that I go to McDonald's because I "have" to in the sense that it fulfills a need I have at the time that I can't currently better meet with an alternate provider (or, that I don't perceive that other providers exceed McDonald's level of service). McDonald's represents an interaction I slightly dread, but endure in order to obtain the food. Starbucks, by contrast, represents an interaction that I look forward to. The differential impact would be starkly evident if competitive offerings

were made available. My propensity to switch would be significantly greater in the case of fast food compared to coffee.”

Online businesses can also be considered. Most students will be familiar with how iTunes “recognizes” them and maintains enough information about them to make their shopping for new music more convenient, for instance. But compare this to going into a more traditional music retail store and shopping for CDs. An offline music retailer might have an outgoing sales clerk who remembers frequent customers, but it is unlikely that many students will have had that experience.

2. How can a company identify customers when those customers don’t talk to its representatives very often, if at all—at least not individually? (Consider a pet food manufacturer that sells to retailers, not directly to consumers. Or a convenience store that operates on a cash basis. Or a fast-food chain. Or a business-to-business company that doesn't have a human sales force.)

- A pet food manufacturer that sells to retailers, rather than directly to consumers, could use promotional vehicles such as a coupon distributed either with the product itself or via a free standing insert (FSI) in newspapers that requires filling out name and address for redemption. Alternatively, the pet food company could make a Web site available with tips and advice on raising different kinds of pets, perhaps with discussion groups involving pet owners. Or it could create a Facebook fan page designed to do similar things. Either way, by relying on interactive technologies the company would make it easier for customers to participate, and less costly for the company as well.
- A convenience store that operates on a cash basis may be small enough to learn most of its major customers personally. Sufficient trust may already have developed to the point where the customers would be willing to provide personally identifying information if asked. To get started, the store could make “buy ten, get one free” offers for frequently purchased items, such as gallons of milk, candy bars, or cups of coffee, in exchange for registration information. A truly enterprising store might try to make interactive contact with its frequent customers by participating, for instance, in a location-based mobile Web program such as FourSquare.
- Fast-food chains often appeal to children and thus could, with parental approval, run a promotion that involved having the children and their families register at a Web site to participate in games. This approach could also serve as a method for signing up customers in a frequency program.
- A business-to-business (B2B) company without a sales force could, if its product is complex, offer low-cost or no-cost training sessions for its customers to get to know the end users of its products. The B2B firm could also set up an intranet

where current customers could obtain information, register complaints or comments, and place and track their orders more efficiently, as well as make reordering parts or consumables very easy. The firm could also build its database by obtaining personal information from customers and prospects that stop by its booth at trade shows.

3. What will encourage customers to “raise their hands” and agree to be identified and recognized?

Customers will need to recognize personal benefits for proactively identifying themselves to firms that would like to collect information about them. The answer to the question “What’s in it for me?” will need to be clearly evident, especially as concerns over privacy grow. At a minimum, customers will need to perceive a functional benefit from self-identification, such as rewards or other benefits provided by a frequency program. More ideally, customers will perceive that providing personally identifying information may lead to a relationship with a manufacturer or service provider that will enhance their lives in some way. It could mean, for example, saving them time, making them aware of just the right products that they otherwise would not know about, or providing a sense of respect and perhaps even belonging from repeated interactions over time.

Chapter 5: Differentiating Customers: Some Customers Are Worth More Than Others

1. Why is it not enough to consider average customer value?

Average customer value is a useful thing to know, but it is more efficient to allocate marketing funds in such a way as to maximize benefits, and the most benefits will come from customers with the highest actual and/or potential value. Treating different customers differently requires an enterprise to know how its customers differ from one another.

Consider, for instance, the issue of customer retention. Money is required to fund almost any customer retention effort—mostly to pay for offers, communications, and the management time and attention involved in the effort. It only makes sense that when allocating the budget to improve customer loyalty, an enterprise should concentrate on those particular customers whose loyalty would generate the most value. If a most valuable customer (MVC) were to leave the franchise, it would be much more costly to the firm than if an average customer left. But if the company doesn't know who its MVCs are, it cannot concentrate its efforts on retaining them, so its retention efforts will be much less beneficial. And if the enterprise doesn't know which particular customers are costing it money (below-zero customers [BZs]), then when it launches a customer retention effort it will also be trying to retain these BZs, and losing money each time.

Valuing customers identically also provides little strategic direction for managers trying to decide which of several alternative marketing programs to implement and where to focus their spending, as they cannot calculate the impact on their most valuable or most growable customers (MVCs and MGCs).

2. How often should actual value be calculated? Potential value? Why?

Ideally, actual value should be recalculated on a real-time basis, customer by customer, if the enterprise's technological capabilities permit. If this is not possible, and customers' actual values tend not to change drastically over time, the enterprise can choose regular intervals for update (e.g., weekly, monthly, or yearly).

Potential value should be updated whenever new information about particular customers or groups of customers becomes available, or whenever the configuration of products and services available changes significantly. For instance, the potential value of individual customers should be updated upon learning of customer growth news. If GapKids learns that one of its customers has become pregnant or is about to adopt a baby, it can increase that customer's potential value for the firm (including BabyGap

sales revenues). As another example, consider new information that could decrease the potential value of customers. If a new competitor enters the airline market, or an existing competitor offers a unique benefit (e.g., free on-board internet access at each seat), the enterprise may want to revise downward the affected customers' potential value accordingly. In this case, it is likely that some of their customers can be expected to shift some of their share of wallet (airline business) to the new airline or to the airline with the unique offering. Such a calculation may then serve as an impetus to strengthen bonds with current customers to avoid the loss in share of customer (SOC).

Sometimes a company might add a new service or product that provides significantly more opportunity to sell to customers, so some customers' potential values will increase. When a mobile phone carrier upgrades its network to accommodate more data-rich mobile devices, for instance, the opportunity to sell increased data services raises the potential values of all its data-using customers. Or if two businesses combine in a merger or acquisition, their combined product-service offering might raise the potential values of the customers they each serve.

3. Search the Web for a company that has successfully “fired” customers in the past. What policies are successful, and what policies are likely to create mistrust?

Search on Google for the fixed words “firing customers” and you will likely get more than 10,000 results. A quick browse through these results will show that there is still a great deal of controversy around this practice. Many management blogs and articles urge companies to consider firing unprofitable customers, while many others caution against it. Clearly, this policy should be approached carefully.

Students should be encouraged to focus on two or three companies mentioned online, and contrast the policies followed by each. One high-profile case involved Sprint, which fired about a thousand customers in 2007 because, among other things, many of them were calling in to Sprint's customer service line dozens of times a month. Sprint's action immediately generated headlines—and mostly negative—because many people felt the company's own poor service was generating these calls. We (Peppers and Rogers) wrote about this issue and considered the pluses and minuses of firing unprofitable customers in this kind of situation in our weekly newsletter. The article can be retrieved here: <http://www.1to1media.com/view.aspx?DocID=30311>.

4. What are likely to be the best measures of actual and potential value for each of the listed customer bases? How would you confirm that your answer is right? Would the company likely be best served by proxy, financial, or statistical value analysis?

- Customers or a B2B electronics components distributor
- Customers for a dry cleaner
- Customers for an automobile manufacturer; for an automobile dealer
- Customers for a chemical supply company

- **Customers for a discount department store**
- **Customers for a large regional supermarket chain**
- **Customers for a long-haul trucking company**
- **Customers for Disney World; for Six Flags; for Club Med**
- **Customers for CNN; for HBO (Caution: They're different. CNN sells viewers to advertisers while HBO sells programming to viewers.)**
- **"Customers" for a political campaign; for the American Cancer Society; for NPR (formerly known as National Public Radio); for Habitat for Humanity**

One extended example:

The actual value of customers for a dry cleaner can be estimated based on average annual dry cleaning expenditures per customer. This calculation will be possible only if the dry cleaner is tracking each customer's expenditures. Potential value could be based on an analysis of average annual expenditures per customer, by customer type, based on historical data. Thus, a male, age thirty-five, who is currently dropping off three shirts per week at the dry cleaner, can be compared with average expenditures for other males in his age group. If it turns out that other similar customers bring an average of five shirts per week plus two pairs of slacks for dry cleaning, then the enterprise can calculate the difference in value for this customer, projected into the future, if he could become an "average" customer for his customer type. Over time the dry cleaner could try to cross-sell and upsell this customer, and see to what degree his potential value was realized. This enterprise would probably be best served by simple, proxy measures such as historical average sales data on current customers, as they may not possess the technical prowess to conduct more advanced analyses, or the funds to hire someone to do so for them.

	Actual value/ Potential value	Confirm answer	Proxy, financial, or statistical value analysis?
Customers for a B2B electronics components distributor	Actual value = Lifetime value calculation for individual customers based on historical data Potential value = Add in upselling and cross selling potential valuations, and total cost of	Compare to previous period	Financial

	relationship relative to product price		
Customers for an automobile manufacturer	Actual value = Share of a household's garage Potential value = Increased share of "wallet," including credit card, and so on	Compare to previous period	Proxy
Customers for an automobile dealer	Actual value = Lifetime value including financing options profitability Potential value = Adding in upselling potential such as servicing, total SOC	Compare to previous period	Financial
Customers for a chemical supply company	Actual value = Customer lifetime value calculations for individual customers Potential value = Include value of customer referral enhancement, and additional services such as EPA regulations and forms	Compare to previous period	Financial
Customers for a discount department store	Actual value = Average profit per basket of goods purchased, less returns Potential value = Increased share of wallet from	Compare to previous period	Proxy

	customer appreciation program, gift registration, smart sampling, auto replenishment, total SOC		
Customers for a large regional supermarket chain	Actual value = Customer lifetime value based on scanner sales data Potential value = Increased share of customer from loyalty program, SOC, response to reminders and tailored suggestions, auto replenishment	Compare to previous period	Financial
Customers for a long-haul trucking company	Actual value = Customer lifetime value for individual customers based on historical data Potential value = Cross-selling opportunities	Compare to previous period	Financial
Customers for Disney World	Actual value = Average profit per family visit Potential value = Added value from cross-selling with package deals (e.g., hotels), SOC	Compare to previous period	Proxy
Customers for Six Flags	Actual value = Average profit per visit Potential value =	Compare to previous period	Proxy

	Increased profit per visitor with return to park program promotion, and cross-sell/upsell		
Customers for Club Med	Actual value = Customer lifetime value calculation based on historical data Potential value = Upselling and referral value, SOC, additional annual visits	Compare to previous period	Financial
Customers for CNN	Actual value = Upfront advertiser time sold each year Potential value = Increased share of network dollars per customer through enhanced guarantees of audience delivery	Compare to previous period	Proxy
Customers for HBO	Actual value = Customer fees paid Potential value = Increased fee potential for tailored programming, retention	Compare to previous period	Proxy, potential statistical
Customers for a political campaign	Actual value = Likelihood of voting multiplied by likely vote outcome and donations (\$) Potential value = Enhanced value as	Compare to previous period	Proxy

	measured by size of voter's social network and social influence, potential donations (\$\$\$)		
Customers for the American Cancer Society	Actual value = Donor lifetime value and volunteer participation, charity SOC Potential value = Enhanced donation size and/or frequency resulting from more effective, tailored communication efforts, referrals	Compare to previous period	Financial
Customers for NPR	Actual value = Donation or participation size and repetition; Potential value = Increased charity SOC and increased listenership through tailored Web support efforts	Compare to previous period	Proxy
Customers for Habitat for Humanity	Actual value = Contributions in money, work time, in-kind building materials Potential value = Enhanced average contribution level based on increased interaction with donors, increased SOC for charitable participation	Compare to previous period	Proxy

5. For each of the companies listed in question 4, what's the next step? How does a company use the information about customer value to make managerial decisions?

One extended example:

The next step for the dry cleaner described in question 4 would be to determine who their most valuable customers are; who their most growable customers are; which customers, if any, they are losing money on; and perhaps most important, which customers are most likely to realize their full potential. Over time the dry cleaners could track the extent to which the various types of customers reach their value potentials, and thus which are more “elastic” in terms of value enhancement. They may then choose to focus their future marketing and sales efforts on customers who are most responsive to their value growth efforts rather than to those who initially exhibited the largest value gaps.

Customers for a B2B electronics components distributor	Next Step = Spend more on customers with greatest upside potential (e.g., those most responsive to upselling and cross-selling efforts).
Customers for an automobile manufacturer	Next Step = Spend more on customers most responsive to increased share of wallet programs. Focus on getting additional space in garage for our brand(s).
Customers for an automobile dealer	Next Step = Spend more on customers most willing to add in cross-sold services, and high frequency.
Customers for a chemical supply company	Next Step = Spend more on customers most likely to refer other customers and to pay for consulting.
Customers for a discount department store	Next Step = Spend more on customers who buy more as a result of customer appreciation efforts, and who respond to tailored offers.
Customers for a large regional supermarket chain	Next Step = Spend more on customers most responsive to increased share of customer program, and who participate in auto replenishment.
Customers for a long-haul trucking company	Next Step = Spend more on customers most responsive to cross-selling efforts, and willing to expand SOC.
Customers for Disney World	Next Step = Spend more on families most likely to add in hotels, and so forth, to package deals, or additional trips per year.
Customers for Six Flags	Next Step = Spend more on customers most likely to revisit park, and spend more on elite parking, food, and other extras.
Customers for Club Med	Next Step = Spend more on customers most likely to

	visit more profitable resorts and refer their friends and family, or take large groups.
Customers for CNN	Next Step = Spend more on advertisers willing to commit a greater share of their advertising dollars to CNN network up front.
Customers for HBO	Next Step = Spend more on customers most willing to pay more for tailored programming, focus on retention.
Customers for a political campaign	Next Step = Spend more on more connected voters likely to vote for candidate, as well as donors and active volunteers.
Customers for the American Cancer Society	Next Step = Spend more on potentially big donors who tend to be responsive to tailored communications, often those personally touched by cancer.
Customers for NPR	Next Step = Increase Web support efforts to continue to increase audience and develop ties with them.
Customers for Habitat for Humanity	Next Step = Spend more on active volunteers and donors, and on building a sense of community and shared vision.

Chapter 6: Differentiating Customers by Their Needs

1. Why has more progress been made on customer value differentiation than on customer needs differentiation?

Many manufacturers sell their products through retailers, or through wholesalers and retailers, and thus typically have minimal direct contact with the final end-user customers. The traditional channel structure has therefore made it difficult for many manufacturers to obtain information from individual customers regarding their needs or purchase motivations. Even if such manufacturers could contact their end-users, understanding the end-users' needs would require they be engaged in individual interaction, or at least surveyed to ascertain their needs; this may be a time-consuming and expensive process. Efforts at customer value differentiation, by contrast, can sometimes be accomplished in a more efficient way with the aid of CRM software and customer analytics. Finally, conceptualizing individual customers or portfolios of customers in terms of needs as opposed to focusing on product benefits represents something of a paradigm shift for most marketing managers; since they aren't yet prepared to change the way they treat customers based on what they know about needs, there's no obvious rush to in-depth needs understanding. It is therefore not surprising that enterprises are further along in making progress on valuation efforts than in needs differentiation efforts.

2. If it could only do one, is it more likely that a customer-oriented company would rank all of its customers differentiated by value or differentiate all of its customers by need?

The sad fact is that most firms are more "profit oriented" than they are "customer oriented." That is, rather than always asking what would be in the customer's interest, they are constantly considering what would best add to the firm's own profit. For this reason, the vast majority of firms are just naturally more interested in how different customers are worth different amounts to the firm, than they are in how different customers need different things from the firm. Usually, an enterprise's single-minded focus on its own profit is also an indication that it will be willing to trade-off long-term value in return for short-term gains, as well. However, if a company at least can recognize the genuine nature of a customer's value—which includes not just immediate sales, but the customer's lifetime value—then it might be less likely to succumb to this kind of self-destructive short-termism.

A truly customer-oriented company (as opposed to a purely profit-oriented company) would be more interested in how its customers' needs differed, so it could do a better job of meeting those needs individually. In the process, it would also be able to generate more customer satisfaction and loyalty. It would still be helpful, however, to have

information about how customers differed in values, in order to maintain as much cost-efficiency in its efforts as possible and to make sure the resources of the company were prioritized as they are used to build value through customer revenue and equity.

3. Is it possible to meet individual needs? Is it feasible? Describe three examples where doing this has been profitable.

Most students will recognize that it is possible for only the most sophisticated firms to meet individual customer needs. Firms that are logistically capable of tracking customer needs and that sell products or services whose margins can withstand the costs of responding to individual needs will be able to make such a business model work profitably. There are several examples of organizations that have found it both possible and feasible to do so. The computer company Dell immediately springs to mind as a prime example of profiting by allowing individual consumers to design their own computers according to their individual needs. Dell has mastered the communication and logistics required to very profitably achieve this goal. Another example consists of large universities that have altered their course offerings and requirements so that students essentially design their own programs of studies, or even develop their own unique majors, if none of the existing offerings best fits their needs. Thus, there are both goods and services examples that can be offered up as successes of individual need fulfillment, including customized palletization of grocery goods (SPAR), customized Web sites (many), and customized clothing (several).

4. For each of the listed product categories, name a branded example, then hypothesize about how you might categorize customers by their different needs, in the same way our sample toy company and pharmaceutical company did. Unless noted for you, you can choose whether the brand is business to consumer (B2C) or B2B:

- **Automobiles (consumer)**
- **Automobiles (B2B, i.e., fleet usage)**
- **Air transportation**
- **Cosmetics**
- **Computer software (B2B)**
- **Pet food**
- **Refrigerators**
- **Pneumatic valves**
- **Hotel rooms**

One extended example will serve to illustrate how students may respond to this question and some insights may emerge. The Toyota Prius is an electric hybrid vehicle that has garnered considerable interest and demand from consumers in the United States. This car, which is purported to deliver upward of 60 miles per gallon in fuel

mileage and which costs around \$20,000 makes it a potentially very economical family sedan. The car seems to have appealed to at least two different types of customers, however, as can be seen in their different sets of needs. One customer portfolio would appear motivated to purchase this car as a method of reliable, cost-efficient transportation (based on Toyota's brand heritage). Very economical to drive and maintain over the long-term, the Prius also fulfills this customer's need to feel less guilt about driving a car in today's high-fossil-fuel-consumption society.

Another customer portfolio, however, is most interested in the Prius (as opposed to other hybrid cars, also available) because the Prius *only* comes in a hybrid form, so when people see the customer driving a Prius they will know that this customer is making a statement about environmentalism and sustainability. They are also interested in the economics of owning and operating the vehicle, but they are primarily interested in what the car brand says about them to other people.

Thus a single branded automobile may be desired by two rather different customer portfolios because it can fulfill multiple sets of customer needs. In this case, as with many "wearable" products like cars, the two customer portfolios are roughly divided according to which customers prefer utility, and which ones prefer status. While it might sound as if we are disparaging the "status first" buyer, it's important to understand that this is an entirely legitimate and honorable consumer need. Every human being has a deep desire to have some control over how they are perceived in the minds of other people. Some of us simply feel this need more deeply than others do.

The next issue is: What can we do differently to meet these two customer groups' differently felt needs? For the utility-first buyer (the one primarily interested in fuel economy and efficiency) we could provide driving tips designed to minimize cost. It might even be possible to fit the car with technology that can provide immediate feedback to the driver to improve fuel efficiency, for instance, or perhaps a Web site could get data regularly uploaded from the car and provide a tally of its ongoing total cost of ownership. For the status-first driver, we should look first for other status indicators to meet their need. Merchandise with the Prius brand would be good—sports shirts, caps, carrying cases, and so forth. But it's also possible that Toyota could create some sort of Facebook app that would allow a status-oriented Prius owner to let more of his or her friends know of their car—perhaps a "where have I been in my Prius" app, or some kind of spot-the-Prius game.

Town and Country Minivans (B2B, i.e., fleet usage)	Corporate customers with certain needs, including salespeople who practically live in their company "car," and need the size and storage room of a minivan; special opportunity for adaptation, such as the second and third rows that offer a folding
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	table for a traveling office, as well as wireless/online capability and data storage. A different fleet customer may own a chain of daycare centers and need built-in baby and child seats in the second and third rows. And yet another B2B customer manages elder centers and needs special event transportation for elderly groups on special outings. They need ease of entry and exit via ramps or steps, and large buttons on seat belts for ease of use.
Southwest Airlines Air Travel	Recognizing that “leisure” and “business” travelers are the same <i>people</i> at different times, an airline can figure out what you need most, when. With the family, you may need to be sure everybody gets seats together, while business travelers want to be certain of overhead space for their rollaboards. Different “business” travelers want different things (some value the free drinks in first class, others don’t drink but value never having to stand in line). Knowing which is which allows a firm to improve the experience for a customer in a way she values the most without providing expensive upgrades for everyone the same way.
Bobbi Brown Cosmetics	(1) Some teens seek fun packaging and vibrant shades of colors. Others most value having a way to experiment with untried products and techniques of application. And yet others want to fit in, to be accepted. Some teens want to use makeup, or Bobbi Brown makeup, because they want to look better—others to show they’re cool and grown up. (2) The working woman, boomer-aged, has a different set of objectives (e.g., reduce the signs of aging) and knows “what works.” A customer in this group may seek a simple way of reordering her regular items to save time.

Oracle Software	The largest Fortune 500 firms seek intensive product knowledge from the sales force with comparisons versus competitive offerings; the right levels of software customization; and on-site, follow-up training and service, yet each has a different way of defining “right” when it comes to these services.
Pedigree Dog Food	(1) Low-involvement owners seek an efficient and low-cost food for their pets that is easy to clean up. (2) Anthropomorphizers (those who treat their pets like people) want the best-tasting, healthiest food available for their pets, even if it means timely preparation and clean-up, such as making gravy to pour over the dry dog food.
Sub-Zero Refrigerators	Some appliance buyers need reassurance that they are purchasing “the best.” Others want a brand that lets their friends know they have purchased the best. Some want the advanced features and gadgets offered on Sub-Zero products.
Pneumatic Valves	In this B2B category, some buyers need the friendliness of a charming salesperson. Others focus right on the application at hand, and welcome the opportunity to build the best possible valve for the current need. Others wait until the valve they’re using fails, and need fast replacement with an acceptable substitute.
Ritz Carlton Hotel Rooms	Honeymooners seeking privacy and pampering should be provided champagne and chocolates upon arrival, but then not interrupted by the staff thereafter, as they will have been informed of a clear “do not disturb” status. Conversely, businesspersons seek quick and easy access to the Web and the ease of making long-distance and international calls. A secure PC in the room with a broadband connection may be desirable. The point is

	that different people need different things at a hotel and the ability to remember those is valuable to most customers. A hypoallergenic pillow, ice cubes in the white wine from room service, an easy departure with no formal checkout—these will vary from individual to individual.
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Chapter 7: Interacting with Customers: Customer Collaboration Strategy

1. TiVo and other specific digital recording devices collect very specific data about household television viewing. These services make it possible to know which programs are recorded and watched (and when and how many times), which programs are recorded and never watched, and which programs are transferred to DVD or other electronic format. The services also know when a particular part of a program is watched more than once (a sports play, or a favorite cartoon, or movie scene, or commercial). What are the implications of that knowledge for dialogue? For privacy? For the business of collecting the data (i.e., data or a cable company)? How might TiVo or a cable company use this information to increase the value it offers to advertisers and marketers? What would a marketer have to do differently to make the most of this information? How can DVR companies respect their own customers' privacy?

The implications of this knowledge for dialogue are that customers, by their behavioral patterns, can communicate to advertisers when they are and are not willing to be exposed to their mass advertising efforts. For example, marketers may discover insight regarding the relative importance of effective targeting efforts versus creative strength in terms of which is more important in affecting the "watchability" of their ads.

The implications for this knowledge for privacy are that TiVo customers must be made aware of the collection of this type of data, and they should be reassured with an airtight guarantee that all data collected about them will be coded rather than connected to their actual identity.

In terms of TiVo's business model, TiVo has the capability, if it chooses to do so, to charge advertisers for advertising impressions according to the actual number of impressions, including repeats and excluding zipping or zapping episodes. TiVo can learn how type of program, type of advertisement, and type of customer interact to affect advertisement viewing behavior. This knowledge can provide not only more precise bases for advertiser costs, but potentially provide advertisers with insight that can help them to improve the likelihood of the ads being watched and thus gaining viewer impact.

A marketer would need to be willing to accept the potentially disappointing information about just how many TiVo viewers watch its ads, especially in comparison with its competitors' ads, in order to learn from the knowledge and take action to improve its performance.

2. What problems might occur if an enterprise participates in customer dialogues

but its own information and data systems are not integrated well? Do you remember any personal experience in dealing with a company or brand that could not find the right records or information during your interaction with it? How did this make you feel about the company? Did you feel the company was less competent? Less trustworthy?

When dialing in to a contact center you usually have to deal with a robot first—the IVR, or “interactive voice response” unit. This IVR may ask you to push 1 to activate a card, or push 2 to contact a service technician, and so forth. But frequently it will also ask you to enter your account number or some other identifying number using your touch-tone phone. However, how many times have you done this, and when you finally do talk to a human being, the first question asked is “What is your account number?” This is just one example of how many companies do not have their data collection systems synched well enough to be able to provide convenience for the customer.

Often, when a company is the result of two or more other companies merging or combining their operations, it might take months or even years for the multiple firms involved to be able to coordinate their individual customer data.

Competence is a very important element of trust. We cannot “trust” a firm that isn’t competent, and each time there is a failure in handing off customer information (or other information of interest to a customer) from one system or entity to another, this trust is undermined.

3. What are some of the explicit bargains companies have made with you in your role as a customer to get some of your time, attention, or information?

Many students will have answered a survey because the survey company included a dollar or other reward. Other common examples include using frequent shopper cards at the grocery store in order to obtain the promotional prices of goods on sale. In return you allow the store to track your baskets of purchases over time to learn about your buying habits. Many airline passengers also become members of frequent flyer programs to earn free flights, knowing that their flight purchases are tracked by the airlines. Online sites often require registration or other personally identifying data from a customer before making reports, entertainment, or information available for free.

4. How does the European book club mentioned in the discussion of complaint discovery actually know that it was the calling program that led to 6 percent fewer drop-offs and 8 percent more sales per member? Might it not have been the book selection that year? Or the economy?

To be certain that the incremental sales and reduced attrition rates are attributable to the European book club’s calling program, the book club would have to test the effects of this program by comparing a “test cell” to a “control group.” The book club could test

the results of the calling program by making the calls to test cell of customers while not making calls to a control group of customers. The test and control groups would need to be matched on all relevant customer characteristics, such as demographics, so that they would be “statistically identical.” There is a science to deciding how many prospects or customers to assign to a test cell in order to validate the results, and this requires some statistical analysis. As a general rule, however, direct marketers know that if they design a test cell so that at least 200 or more responses will occur, then the test cell is going to be large enough that they can have a high degree of confidence in comparing the results to the control group, or to other similarly designed test cells. An experimental test of such a program is really the only sure way to rule out alternative explanations for the results obtained.

5. When you plan to buy a product and want to investigate its benefits and drawbacks, whose advice do you seek? Do you think the advertiser will tell you about the drawbacks or just the benefits? If you are trying to evaluate the product by researching it online, do you have more confidence in it if the seller makes other customers’ reviews available? What if you read a negative comment? Might you still buy the product?

Believe it or not, marketers have now established that the existence of a negative review on a Web site has a stronger correlation with the closing of a sale than the existence of a positive review. This makes sense to us all if we just think about it. When you go searching for honest opinions from others about some potential purchase, if all the reviews are glowing, then the suspicion is that they are not all honest. Now if all the reviews are negative, you certainly wouldn’t buy the product, but if most of the reviews are positive while a few are negative—doesn’t the existence of the negative reviews actually strengthen your confidence in the honesty of the positive ones?

Chapter 8: Customer Insight, Dialogue, and Social Media

1. You've been appointed as the new chief marketing officer (CMO) for a large packaged goods company. Your CEO has decided that your company will be the premier "relationship" company in your industry.

- **What could that mean?**
- **How will you execute that?**
- **What will you use as data collection tools?**
- **What role will interactivity play in your plans?**
- **What role will e-mail play? Mobile devices? Social networking?**

Be as specific as you can.

To date, consumer packaged goods companies have faced significant hurdles in becoming customer-centric organizations. Most are not equipped to know and track their individual customers, and those that have managed to do this with a measure of success have then had difficulty profiting from the information collected. Thus, for a CPG firm to become the premiere "relationship" company in the industry would imply that they need to find a way to know and track individual customers as well as develop a strategy whereby such knowledge could profitably be used.

There are certainly ways to obtain individual customer information. We could implement various types of mass media promotions (e.g., Sunday FSI-delivered coupons that require personally identifying information such as name and address to be written on the coupon for redemption), or Web-based initiatives (e.g., recipes provided using our products as ingredients, if a customer registers with basic information at the site). The customers' purchase behavior then might be linked to this information by purchasing scanner data collected by the grocery chains.

The key issue remains developing a strategy whereby, as our learning and insight regarding each customer grows over time, we utilize that knowledge to enhance the customer's value to the firm. Interactivity could play a role if we allow the customer to tell us directly, via Web surveys, for example, or indirectly by her behavior patterns, what types of incentives or treatment would be required to increase our share of her household's wallet in the product categories we offer for sale. For example, if we notice that a customer often buys low-carbohydrate products in other categories, and we are about to launch a low-carb version of one of our own products, we could alert the customer to this fact via e-mail and possibly even increase her total category purchases over time. If the customer has a wireless device such as a smartphone or a tablet, and has given us permission to track her geographic whereabouts, we could send her various messages as she enters grocery store locations.

Our overall goal should be to earn the trust of the customers who buy our products, in order to maintain their long-term loyalty to our brands. So our Web site should provide information that is objective and helpful, not just about our specific products, but about all the problems or consumer needs that are met by using our products. Our e-mail messages should be interesting to read, not just promotional. And we should use social media platforms to launch and maintain ongoing discussions with our customers. We should strongly consider the possibility of letting customers review our products on our own Web site or within our Facebook fan pages, for the benefit of other customers. These are all actions that would be taken by a company that is sincerely working to meet the needs of customers, not just to sell products and make a profit.

2. Now imagine you work for a large automotive company and answer all the questions in number 1. Are your answers different? Why or why not?

The CMO of a large car company might find it less burdensome to obtain basic identifying information on its customers and prospects, as this type of information could be obtained at showrooms during test drive visits as well as on the corporate Web site, and based on purchase records. While the repurchase cycle for autos is considerably longer than for CPGs, there are numerous opportunities for contacting customers and obtaining their feedback in between car purchases. For example, a customer with an Internet or wireless connectivity could be asked to provide purchase satisfaction opinions after the sale. Any negative responses could then be immediately addressed, to minimize the chances of losing this customer to a competitive auto manufacturer later. There would also be opportunities for cross-selling (e.g., ski racks, wheel covers, and servicing contracts) tied to seasonal events (e.g., onset of winter) or length of car ownership (e.g., time for a tune-up). One key consideration here is the parallel relationship between the customer and the *dealer*.

And, while earning the trust of customers is also important in the automotive category, the way to go about it might be slightly different. Autos come with warranties, for instance, so one thing we might want to do is to let customers sign up for reminder notices when their warranties are about to expire. Unlike packaged goods, autos are a “considered purchase,” and the customers who shop for autos usually make a substantial effort to compare makes and models prior to purchasing. Allowing customers to make those comparisons directly on our own Web site (yes, and with competitive data shown, also!) would go a long way toward earning customer trust.

3. Now answer the questions in number 1 for:

- **A natural gas company**
- **A retail shoe chain**
- **A company that makes pneumatic valves for construction**
- **The U.S. Navy**
- **Other kinds of organizations (you decide)**

It is conceivable that nearly any type of enterprise could benefit from using the various tools of interactivity to build learning relationships with their customers, members, donors, or constituents. Nonprofit organizations, for example, could decide to set up a customer interaction center to enhance relationships with donors. Personalized telephone service could be offered to the larger donors, and personalized e-mail could be used to maintain contact with the more numerous but no less important smaller donors.

4. What do you think about Comcast customers taking Frank Eliason's place for the day? Would you ever help a fellow consumer through Twitter or Amazon or any other Web site? Would you be shocked if a stranger offered to help you?

Use as in-class discussion question.

Chapter 9: Privacy and Customer Feedback

1. Who owns a customer's information?

- Who should profit from it?
- How would that work?

There are different views on who owns a customer's information in the United States than in Europe. In Europe, the general attitude is that the consumer owns the data, whereas in the United States, a more market-driven economy, the attitudes are more favorable toward businesses having the right to own and use information they acquire about customers or prospective customers. Moreover, there are differences of opinion regarding who owns customer data according to what type of data is under consideration. Most customers would agree, for example, that vital statistics such as information about dates of birth and car registrations and other information collected by the government lies in the public domain. Transactional data, such as the information collected by credit card firms, is collected, used, and sometimes sold by businesses. While in the United States such firms own transactional data, in order to avoid violating customer trust, at a minimum, such firms should make transparent to customers what information is collected and how it is used, before customers sign up for their products (such as on credit card application forms). For more personal types of customer information, customers need to provide enterprises with permission to collect and use it, in order to maintain trust levels and continue to build customer relationships.

Firms that have obtained information in a transparent manner from customers (e.g., with permission) may profit from it as long as they use the information in ways that the customer is aware of and approves of. Indeed, most customers probably realize that firms obtain such information ultimately to be able to profit from it. The implicit contract that needs to be in place for this to happen is based on the perceived value to the customer that will be realized as a result of effective use of the information. The information should enable the enterprise to provide superior value to the customer, for example, with personalized and more relevant communications and product offerings, thereby saving the customer time and search effort. To ensure a clear understanding between enterprise and customer about how personal data will be used, the enterprise should make an explicit bargain with the customer regarding these issues, and issue—and honor—a written privacy pledge.

One policy or attitude on the part of a business that is particularly useful when handling personal information is to think of the objective somewhat differently. Rather than asking "How can we collect and use customer information to sell more things?" a trustworthy firm will ask itself "How can we collect and use customer information to make our products or services better for the customer?" If this is the question asked, it can almost be guaranteed that a company will *also* sell more things.

2. Is anonymity the best solution to privacy?

If customers' desire for anonymity grows significantly in future years, this will reflect a failure on the part of enterprises that collect personal customer information to maintain adequate levels of customer trust. Not only will this result in lower ability on the part of the organizations to increase customer value, but it will ironically result in a greater number of irrelevant messages and offers to customers who are not well known to their suppliers. Such a breakdown in trust might be avoidable if firms commit themselves to developing and honoring explicit privacy pledges. Effective privacy pledges can contribute to customers' feelings of control of their information and thus feelings of empowerment regarding how their data will be used. A move toward anonymity will represent a loss for businesses, if it occurs, because anonymity is not always an adequate solution to business goals. Sometimes individuals' complex patterns of needs will not be easily matched with those of similar others, and thus these customers will not be adequately served by being grouped into a larger customer segment. Furthermore, since the tragic events of 9/11, anonymity may not be an option for certain types of behavior, as the government attempts to avoid another major catastrophic loss of life due to terrorist activities.

One of the interesting things about the increasing use of social media is that anonymity is much less possible on a social media platform. After all, who is going to "friend" someone whose identity is secret? There are a few social media platforms (like MySpace) that still allow "sockpuppet" IDs, but it is becoming evident that the real power of social media is in connecting friends with friends. When a company uses a social media platform (as with a Facebook fan page, for instance), there are different customs that apply, and these must be respected. For instance, when customers sign up for an e-mail newsletter, they are more or less agreeing to the idea that the company will send them cross-sell and up-sell opportunities in order to try to drum up more business. But when they sign up for a Facebook fan page, they are not granting this permission (even though it's not a formal act). Companies have found that when they try to "sell" to Facebook fans, they often get significant pushback, because Facebook is supposed to be for "friends" of a brand, and friends are not the same as "customers."

3. What is the difference between privacy and data security, and how should that difference affect the way we use customer data?

Privacy refers to the issue of avoiding customer trust violations regarding personal information and should be governed by the firm's data acquisition and maintenance strategies (e.g., the use of permission-based, opt-in, transparent data use policies). Data security is concerned with the ability of unauthorized third parties (such as hackers) to access a firm's customer data and should be governed by the firm's data protection strategies (e.g., the use of firewalls, etc.). Data security is also concerned with ensuring that your business partners, such as other channel members like vendors and suppliers,

abide by your explicit customer privacy policies to ensure that such data does not “leak out” beyond your control.

4. Compare the situation of Big Business versus Big Brother having detailed information about you.

The key difference in businesses having and using personal information about a person versus the government having and using personal information concerns their ultimate objectives. Businesses desire such information in order to build long-term relationships with their customers, with the long-term goal of enhancing firm profitability, and enhancing their competitive advantage. For this reason, the company that wants customer information to grow share of customer will not share it with a competitor; having and acting on the information a competitor doesn't have is how a company can compete successfully. Governments, however, desire personal information (usually) to deter or punish criminal activity. As a result, the type of information desired will differ, and the concerns of individuals regarding the collection and use of such information will also differ. Most important, different government agencies will tend to want to share information with other government agencies. Individuals may feel they have more control over whether businesses obtain information about them (e.g., they can choose not to voluntarily divulge such information), and less control over whether the government obtains information about them, as the government's practices may be determined by laws passed by Congress and other legislative groups.

Chapter 10: The Payoff of IDIC: Using Mass Customization to Build Learning Relationships

1. How will Lego practice mass customization? To think about mass customization for Lego, consider:

- **Who are the customer types for Lego? (Think B2B.) Who are the MVCs? The MGCs? The BZs? (See Chapter 5.)**
- **What are customers buying when they buy Lego sets? (It's not "toy building bricks.")**
- **If customers buy packages of Legos to resell, what else do they need? What is their expanded need set?**
- **What is the opportunity to lock customers into a Learning Relationship and build share of customer for Lego?**
- **Is there any opportunity, ever, at all, for Lego to build Learning Relationships with any end user? How and why?**

For Lego, there are two types of customers. The customers Lego sells directly too, for the most part, are large retailers, who in turn sell the Lego products to *their* customers, the end users. But Lego also deals directly with these end users through its various Web sites and other channels.

The company has to be constantly aware of the demands of its large, MVC customers (i.e., the big-box retailers who account for the vast majority of sales), but it also must watch out for growable retailers, including new businesses. It might be that some of the very largest retailers will demand such low prices from Lego that they won't be MVCs at all, but perhaps BZs. This is not unusual in the retail space. Wal-Mart, for instance, has such market clout and presence that manufacturers pretty much have to be on their shelves, but often they will make very little profit, even when sales are great.

The big problem for many marketing departments in dealing with consumers is that these consumers often have quite different needs, but this is actually an *opportunity* if a company is prepared to customize its treatment of different customers. Sometimes different customers might buy exactly the same product for the same price at the same time for completely different reasons.

Lego, for instance, knows that three ten-year-old boys might buy the same Star Wars Lego set at the same store on the same day for one of three completely different reasons. The first boy might want to put the set together and then act out the part of Luke Skywalker or Darth Vader. The second boy might have little interest in this kind of role playing, instead focusing on the process of decoding the diagram and instructions in his new Lego set, taking great pleasure in the meticulous construction involved. And the third boy might not want to put anything together that someone else has already diagrammed, preferring to use the pieces to assemble something quite different, based

on his own imagination. The point is that if Lego could know which boy had which needs (i.e., what each boy's different point of view was), then it could sell a wide range of additional products and services to each different boy—story books, videos, and maybe costumes to the role player, for instance, or extra diagrams to the “constructor.”

For Lego to treat these different customers differently requires the company to be capable of mass-customizing its services and offerings to these different boys. Note that the basic products being sold to each are not substantially different, but there are many ancillary products and services that could be sold to each one differently. In addition, of course, for Lego to be able to know whether a particular end user customer is one type or another requires it to have some kind of channel (online, mobile, social media?) through which genuine, interactive communication can flow. But theoretically, once a particular boy tells the company that he prefers to play roles with his toys once they are constructed, this insight could allow Lego to treat that boy much more personally in the future, with offers of role-playing gear in addition to toys. The company could also put the boy in touch with other role-playing customers on its Web site, or at a social media site designed for that purpose.

2. If customization is such a good idea, why don't we see more of it in the marketplace right this minute?

Firms typically can't just jump from a mass production orientation to a mass customization orientation overnight. There are often several steps involved in the process, such as implementing continuous improvement production methods, building up component modularity capabilities, and making technological improvements. Converting to customization can be expensive both in terms of communication efforts as well as production via agile manufacturing systems. Many firms do not yet understand the concept of modularization nor do they yet believe that, once implemented, it can actually help to contain production costs.

3. Name half a dozen examples of mass customization or expanded needs sets in the enterprises where you do business.

Most will be able to name several they have encountered as a consumer, such as Amazon.com, Yahoo.com, Dell.com, and other Internet-based enterprises that are further along on the learning curve in terms of customization and personalization efforts. They may also name:

- The realtor who owns a title firm or mortgage company.
- The contractor who owns a landscaping company, which in turn sends a postcard every fall offering winterizing for the irrigation system, and every spring suggesting colors and planting dates for annual flowers.
- The salon hairstylist who keeps a 3×5 card with your hair color formula.
- The car dealer who calls or sends a postcard when it's time for a tune-up.

- The catalog company (e.g., Land's End) that tailors the catalog you receive to your buying habits.
- The UPS delivery guy who always remembers to put your deliveries at the side door and lets his subs know to do it too.

If encouraged to consider future possibilities, individuals may be able to imagine ways that even big-ticket items bought infrequently, such as automobiles, could be used to create streams of value for manufacturers and service providers (via upselling and cross-selling efforts tied to customer information).

Chapter 11: Optimizing around the Customer: Measuring the Success of Customer-Based Initiatives and the Customer-Centric Organization

1. Let's imagine you are the customer portfolio manager of a wireless phone company. How should you be evaluated at the end of the quarter? Straight sales from your customers? Net sales (sales minus cost to serve)? Customer satisfaction? Would it make sense for you to be evaluated on a combination of how much your company made from your customers this quarter and also—as of this quarter—what the two-year projected value of your customer base is? Five-year projected value? Why?

Students should clearly see the need to balance short-term value creation (i.e., sales minus costs), with long-term value creation (i.e., increased lifetime values). The biggest discussion item in answering the question with respect to how to evaluate a customer portfolio manager is what kind of metric will best capture the total value a portfolio of customers has actually created for the enterprise. Ideally, of course, Return on Customer would provide some insight, but even if a firm is not sophisticated enough to track changes in lifetime value (LTV), perhaps there will be some “leading indicators” that could be added in to a portfolio manager’s evaluation as a means of providing some balance. Evaluating a manager on a combination of customer sales and margin, projected customer sales over the next one or two or three years, customer retention rate, and some survey-based measure of satisfaction, for instance, would be a good start. At many firms this will be as far as management will go. But over time, it should be easier to correlate changes in customer retention rate or sales with changes in customer satisfaction—and at that point the company would be on its way to developing a genuine ROC metric.

2. If a company rewards employees based on a combination of current and future values of customers, how might that change decision making?

Obviously, people do what they’re paid to do, so whatever metric is set up to provide incentive payments will determine what people focus on. Managers who are evaluated solely in terms of sales or margins, or call-center talk times, or cost containment, or any other short-term-only metrics, cannot be faulted for focusing their efforts on maximizing these short-term-only results. The danger is that service might suffer, customers might become less satisfied, and future value will be destroyed, but if a manager is not evaluated on future-value issues (like satisfaction or retention rates) then why should she care about this?

3. Should the value of customers a company doesn't yet have be calculated and taken into account in the present quarter? Why or why not?

This might be a difficult concept for students to get their minds around, but any prospective customer who has some chance of becoming a paying customer at some point in the future has a real economic value, today. The value of a prospect is an “expected value” and, as was explained in the text, it is the prospect’s LTV *if* he becomes a customer, multiplied by the probability that he actually *will* become a customer.

What this really means is that even though a prospective customer is actually paying nothing at all to the company, he nevertheless represents a real asset, and the value of that asset can go up or down just like the value of any other asset.

One way to personalize this issue would be to ask students to imagine that college professors were profit-making companies, generating income based on how many students they enroll in their class. Now the student wants to decide between two different professors each teaching a similar class. Which one is likely to deliver a better classroom experience—the professor with a big waiting list of students trying to get in to the next class she teaches, or the professor with no waiting list of students? If these professors were companies, the one with the big waiting list would obviously be more valuable to her shareholders, right?

4. How is retention different from share of customer (SOC) as a measure and how would it be used differently? Why are both important?

“Retention” is a term applied to the rate at which customers remain with a firm over some period of time. If in year one we acquire one hundred new customers, and during the year, ten of these newly acquired customers leave the company, then our retention for that year was 90 percent. Our “churn” was 10 percent— something that is also frequently called “attrition.” But with respect to any single customer, retention and churn are yes-or-no variables. That is, a company either retains a customer or it does not. There is no in between. Customers are not “partly” retained and they don’t “partly” leave the company.

Or do they? SOC is a metric that can help a marketer decide just how much of a customer’s business the company is actually getting. If a customer buys 100 percent of his computer accessories at a particular store over a period of two years, and then in the third year he only buys 50 percent of his computer accessories at that store, well, this is certainly similar to a churn problem, but it’s not actually churn. So both metrics are important.

Chapter 12: Using Customer Analytics to Build the Success of the Customer-Strategy Enterprise

1. From the customer's perspective, which is better: to buy through one channel or several channels? The obvious answer is to have multiple channels available—order from the Web, make returns at the store, check on delivery by phone—and have all of those contact points able to pick up where they last left off. But is there any advantage—to the customer—of using only one channel? Why does research show that customers who use more than one channel are more likely to be more valuable than those who use only one?

Although it may be more convenient for firms for a customer to buy through one channel, there's not really an advantage to customers in doing so—if a vendor offers *truly integrated service, communications, and delivery channels*.

Multichannel analysis of customer data may help to reveal the profit impact of channel migration of customers and the availability of multiple touchpoints. However, some of the research showing that customers who use more than one channel are more valuable than those who use only one is based on correlational data rather than causal data. That is, it is not necessarily true that the provision of multiple channels increases customer profitability. It could be that the most loyal customers who source the greatest share of wallet with your firm would continue to do so (i.e., generate the same sales and profit levels) if they could use only one channel of distribution. Being able to allocate their purchases across channels does not necessarily mean they will increase their level of purchasing in total. Thus, this intriguing correlational result calls for additional experimental follow-up research that could establish causal relationships.

2. Often the challenge in using predictive models boils down to a misunderstanding of the nature of cause and effect. Although statistical analysis might reveal that two observable events tend to happen at similar times, it does not necessarily mean that one event “causes” the other. What is more important: to understand what will happen next or why it will happen?

Both are important for firms. Understanding what will happen is a more immediate short term goal for most firms, as it helps them to forecast the immediate future and make limited efforts to change such behavior if desired. However, building predictive models to discover why something happens provides information of potentially lasting value to the firm, as it can impact how they do things, such as how they treat their customers, for longer lasting effects on the firm's stream of profits. This is why some “black box” models such as neural networks, even if more accurate predictors of behavior, may be less preferable to more diagnostic models such as those based on

logistic regression techniques, which also provide insight regarding the determinants of response, defection, or the behavior being predicted.

3. Customer analytics can be used for improving retention rates. How?

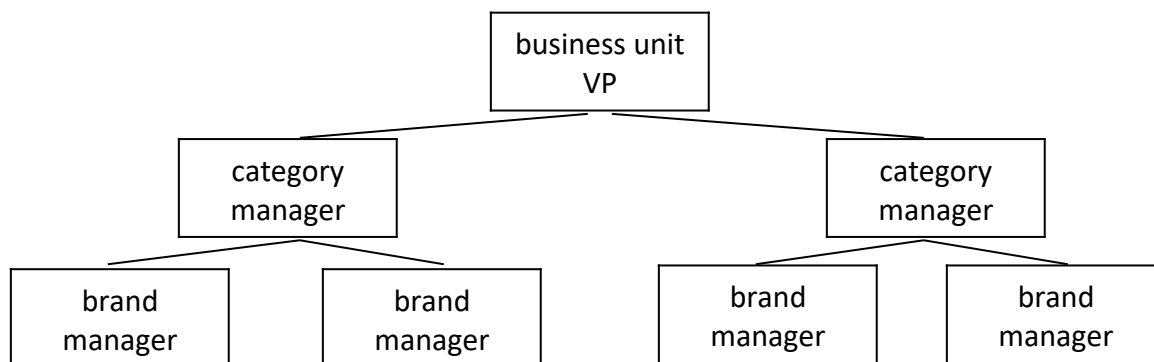
One method of locating potential defectors in the customer database is to create a descriptive profile of previous defectors and then match that to current customers. Those who look most like previous defectors are tagged for attention. Another very simple method for enhancing retention rates or preventing defections is to track the R variable in the RFM (recency/frequency/monetary) framework often used by direct marketers. By examining recency, or the time elapsed since last purchase, the marketer can flag those customers who have let a dangerously long period of time elapse since last purchase, or who indicate reduced volume of activity, or most telling, reduced SOC. Using historical data to determine what a long time period is, the firm can then take special action directed toward those customers who appear ready to defect, for example by offering a special promotion to retain their business, or to survey them for reasons why they have not recently interacted with the firm, and so on.

Chapters 13 and 14: Organizing and Managing the Profitable Customer-Strategy Enterprise: Parts 1 and 2

1. Choose an organization and draw its organizational chart. How would that chart have to change in order to facilitate customer management and to make sure people are evaluated, measured, and compensated for building the value of the customer base? Consider these questions:

- a. If a customer's value is measured across more than one division, is one person placed in charge of that customer relationship?
- b. Should the enterprise establish a key account-selling system?
- c. Should the enterprise underwrite a more comprehensive information system, standardizing customer data across each division?
- d. Should the sales force be better automated? Who should set the strategy for how a sales rep interacts with a particular customer?
- e. Is it possible for the various Web sites and call centers operated by the company to work together better?
- f. Should the company package more services with the products it sells, and if so, how should those services be delivered?

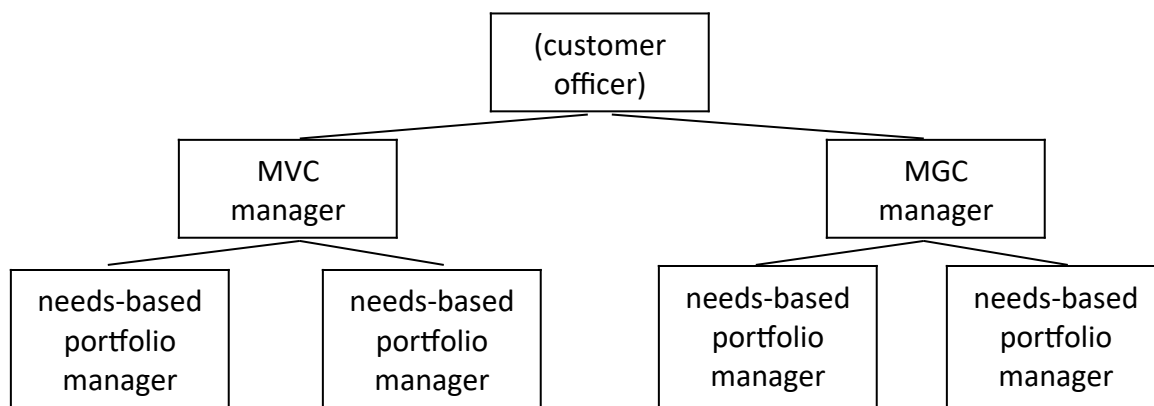
A consumer packaged goods firm's organizational chart for the marketing department might look like this:



In order to facilitate customer management, the chart would need to be altered to reflect a change in how members within the organization are rewarded. Currently, brand managers and their supervisors are rewarded when unit sales increase from one quarter to the next or from one year to the next. They may also be rewarded on the

basis of market share metrics. However, this type of single-transaction approach would need to be replaced with one that focused on enhancing total customer equity (even if the company currently can only roughly estimate such metrics) by putting formerly brand-based managers in charge of customer portfolios, or in charge of developing company capabilities to expand the need set. For example, previous managers in charge of soap brand X or soap brand Y could become capabilities managers. Others within the organization would be reassigned as portfolio managers for MVCs, MGCs, BZs, cross-paired with needs analyses. This would mean each customer would be the responsibility of one and only one portfolio manager. In these ways, the managers would be rewarded for carrying out initiatives and developing customer treatments that contributed to building the total value of the firm's customer equity, as measured with metrics such as lifetime values summed across all customers, and changes in share of customer (SOC), retention, and actual and projected profit or contribution per customer over time. See Chapter 6 of Peppers and Rogers, *The One to One Future*, 1993.

The organization focused on growing customer value would likely look like this:



In this organization, there are specific managers “in charge” of specific types of customers, and the organization has defined types of customers not just by their values to the firm, but by their needs—that is, by the way their own perspectives shape how they view the company and its products. Imagine someone at a mobile phone company operator who has responsibility for all students with smart phones, while someone else is in charge of all students with voice-and-text-only phones. Or someone at an airline in charge of all women who travel frequently on business.

In this kind of “customer management” organization, it is possible to hold the customer portfolio manager accountable according to a variety of metrics, depending on the data and analytics available. It’s possible that the company doesn’t really have a “line of sight” connection with 100 percent of its customers, so the portfolio manager is more

like a segment manager—a kind of internal representative to speak up for the kinds of features and benefits “his” customers prefer, but with no actual authority for making specific offers to specific customers. If the company does have “line of sight” connections with each of the customers, so that they can all be individually identified during their various interactions with the firm, then the portfolio manager could be placed in charge of determining the offers for his customers, as opposed to other portfolio managers who are in charge of the offers for their own customers. If the company has a sophisticated analytics function, then each portfolio manager could be held accountable for maintaining and improving the Return on Customer for his portfolio.

2. For the same organization, consider the current culture. Can you describe it? Would that have to change for the organization to manage the relationship with and value of one customer at a time? If so, how?

The current culture among brand managers at most consumer packaged goods firms reflects traditional MBA training (e.g., based on the four Ps of marketing) and may be resistant to an organizational structure that is not easily transferable to other organizations, given the high level of turnover among brand managers at firms. All levels of management must agree on the reasons for such a major structural change to the management hierarchy. The organization would thus have to convince the brand managers, likely through compensation changes, of the superiority of a customer-centric approach to management and provide training that would convince them that their firm is at the vanguard of a coming shift in the traditional responsibilities of marketing managers. If the brand managers come to acquire the shared values and a mental model reflecting the importance of a customer-centric approach to the firm’s management structure, and they come to believe that the changes will be taking place at other firms and will truly benefit the firm’s profit and growth prospects, they will be more likely to want to move to the new system of rewards and management structure as customer portfolio managers. Customer portfolio managers would then be responsible for retaining a unique set of customers and growing their share of customer and potential value to the firm over time.

3. At the same organization, assume the company rank-orders customers by value and places the most valuable customers behind a picket fence for one-to-one treatment. What happens to customers and to portfolio managers behind that picket fence?

The portfolio managers behind the picket fence must be provided with not only the responsibility but also the funding and decision-making authority to enable them to grow the value of that part of the customer franchise. The customers behind the picket fence must therefore be taken off of mailing and calling lists in other parts of the enterprise, so that the managers behind the picket fence are given complete control and responsibility for their welfare. This will be important for the customer’s experience, and also because these managers will be evaluated and rewarded on that

customer value growth as measured by SOC, lifetime value, retention, and potential value.

4. In an organization, who should “own” the customer relationship? What does that mean?

At the current time, for most consumer-marketing firms, it makes the most sense for the marketing department to “own” the customer relationship, since they have traditionally been responsible for engaging in communication efforts (admittedly one-way in many cases) with customers in the past. For B2B companies, it’s sometimes more appropriate for the sales organization to be in charge of customer relationships, particularly if the sales function has traditionally been fulfilled in a relationship-oriented manner (as opposed to an organization rewarded solely on the basis of product commissions). For some companies, a combined team of marketing and sales personnel may make the most sense.

To own the customer relationship implies that those managers are responsible for developing and maintaining the relationship between the firm and each of the customers. Thus, they will be responsible for changes (upward or downward) in the value of the customer franchise asset and responsible for determining what programs to conduct to safeguard the relationship. Ultimately, for enterprises that are able to realign to a customer-oriented rather than product-oriented management structure, the customer relationships will be owned by the chief relationship officer, who is in charge of the various customer portfolio managers, and may help to coordinate the activity of the capabilities managers.

Chapter 15: Futureproofing the Customer-Centric Organization

1. Imagine you have been assigned to change a currently product-oriented company to a customer-oriented firm. Select one. What is the first thing you do? What is your road map for the next two years? The next five?

There are so many issues to be tackled in this kind of transition, it might be helpful to organize them into categories.

For instance, there are “information and integration” issues, which would involve collecting, managing, and analyzing customer data, and making it available wherever it is needed within the company. These issues represent the “mechanics” of managing customer relationships. In this general area, we would include issues such as:

- Database management
- Information security
- Privacy protection
- Customer analytics
- Data hygiene
- Systems integration
- Process improvement

Then there are the “organization and alignment” issues, which involve how the company structures itself and holds managers accountable for accomplishing things. Issues would include:

- Organizational structure
- Customer segment management or customer portfolio management
- Metrics of success
- Accountability and incentives
- Lines of authority
- Job descriptions

Finally, there would be another area, just as important, that has to do with the “culture” or the “unwritten rules” at a company. What do employees *want* to see happen? What do employees and middle managers do when no one is looking? What are the ways a person gets ahead at the firm, and what actions are frowned upon? Issues would include:

- Values training
- Human resources policies
- Hiring criteria

- Employee empowerment

As for what the right thing is to tackle first, that would depend on your company's current situation. Do you even have the data systems capable of handling individual customer relationships? And if you do, is it possible to assign responsibilities? A reasonable plan would involve designing a kind of "ultimate" ideal case—the kind of firm you'd like to become, eventually—and then to design several stages to be reached on the way to becoming that ideally customer-oriented firm.

2. Name two or three different industries. For each, consider completely different business models that are sustainably successful and that would be based on more collaborative and trust-building ways of creating value. Compare the principles of a merely "trustworthy" company with those of a company that can be designated as having high "trustability." How will the higher standard of Extreme Trust be applied?

Students might be encouraged to begin by comparing Amazon.com with any one of various retail book store chains. What kinds of customer data are available to each different business, and how is that data used? Could a retail book store chain ever duplicate the customer benefits that Amazon.com provides? How?

Or consider two different credit card companies, one designed in the traditional way, and one designed to try to maximize overall customer value by earning each customer's trust. What would a genuinely trustworthy credit card company do? Would it encourage customers to roll their balances? Would it encourage customers to spend beyond their means? How might it help customers to practice better financial discipline? And could it actually create a successful business by earning the trust of customers?

A useful conversation may focus on how Blockbuster created a lot of resentment from customers with the late-return fees on videos and DVDs. But Blockbuster continued to charge the fees, unable to wean themselves off the profitable revenue and using the justification that customers could easily avoid the fees by simply returning movies on time. They seemed to be unable to figure out a way to make money that did not include the hated late fees. Then along came Netflix, with a monthly subscription model and no late fees. After losing two million of its customers to the new company, Blockbuster followed suit, but never recovered.

To reach a higher level of trustability instead of mere trustworthiness, it's not enough to intend to play fair and do things well. Companies must (1) invest in doing things right, so customers don't have to waste their time or deal with hassles, (2) do the right thing from the customer's perspective, which may require reexamining the company's business model to confirm that the company succeeds when the customer succeeds, and (3) to be proactive about doing both. Think of it this way: A trustworthy company follows the rule of law; the trustable company follows the Golden Rule, while still making a profit.

