Gerald E. Smith

THE OPT-OUT EFFECT

Marketing Strategies that Empower Consumers and Win Customer-Driven Brand Loyalty

Praise Endorsements

"A brilliant read. Leave all of your other books on marketing in this digital and customer-empowered world on the shelf. Jerry has provided the new manifesto for all marketers' intent on driving strong business results and effecting legitimate brand building in today's environment. The contents of *The Opt-Out Effect* and the truly new paradigms contained therein are both chilling and exhilarating. Marketers and business people would ignore them at their own peril!"

—Frank P. Bifulco, Jr., Executive Vice President, Global Marketing, Staples, Inc.

"The customers' digital brand experience is here and now and will continue to grow exponentially. Those who want to win over new customers and retain the ones they have need to win in this digital space. *The Opt-Out Effect* gives great insight and a useful outline on what needs to be done to assist you in being competitive over the upcoming years—or have your customers opt-out of your brand. Your decision—a great thought-provoking read."

—Raymond Mancini, CEO, The Belknap White Group

"*The Opt-Out Effect* is spot on. The power of today's economy is in the hands of the user. He/She is the arbiter of what's good, what's right, what's valuable. And brands that win today are those that understand this new reality and embrace such truth. Give users what they need to love your brand and empower them to decide. Dr. Gerald Smith's thorough work brings such insight to light in this frenetic, innovation-centric, digitally infused world in which we all live."

—Laura Gentile, Senior Vice President and Founder, espnW

"Not only do today's customers have a seat at the marketing management table, they're rapidly moving toward the head of it. This book is packed with practical insight, frameworks, and tools to help marketers adjust before incurring the costly harm of customer opt-out. Smith offers a path—and the math—toward managing digital customer relationships."

—Sean Burke, Chief Marketing Officer, GE Healthcare—Solutions

"Gerald Smith took a very smart, innovative and courageous approach to analyzing the relationship between brands and today's evolved consumer in *The Opt-Out Effect*. The modern day marketplace is realizing a significant shift in the power dynamics within the path to purchase and studying this movement through the lens of the consumer offers a pragmatic exploration of this evolution and its impacts. *The Opt-Out Effect* will change the face of how marketers behave in this new world!"

—Rochelle Webb, Brand Marketer—Apple Inc., Visa Inc., Activision Publishing, Quiksilver Inc.
Berkeley Haas School of Business, MBA

"*The Opt-Out Effect* is one of the few marketing books I've read that uses current market conditions and examples to demonstrate the constantly changing consumer and marketing landscape. A worthwhile read for marketers today."

—Victor Lee, Senior Vice President, Digital Marketing, Hasbro

"Dr. Jerry Smith offers a powerful real-world framework for understanding changing relationships between brands and customers. The implications are eye-opening—sustainable customer loyalty will be earned by those companies that invite customers into the digital brand space: to start conversations, create content, rate experiences, request service, suggest product changes, and countless other interactions. This book is a must-read for marketing professionals to better understand the strategy, tools, and talent required to facilitate this type of customer-driven brand experience."

—Chris Alexander, Senior Vice President and Senior Product Manager, Liberty Mutual Insurance

"Dr. Gerald Smith weaves a compelling narrative that explores the dynamic control that customers are increasingly exhibiting on brands and their marketing strategies. Customers are not willing to compromise on their expectations and are using multiple positive and negative levers through social media and behaviors to acquire best value. This shift in control is compelling marketing organizations to create comprehensive customer-focused strategies—a meaningful response to the evolution of the customer-managed experience. A must-read for brand managers and customer-facing executives."

—Anjli Dudani, Vice President of Global Risk, Policy and Compliance, eBay

The Opt-Out Effect

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Gerald E. Smith

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To Betsy

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About the Author

Dr. Gerald E. Smith led the Marketing Faculty at Boston College for nearly a decade and is currently Associate Professor of Marketing in the Carroll School of Management. He leads the MBA Product and Brand Management Specialization, and the Brand Management Partners Program. An award winning teacher, he teaches Strategic Brand Management, Strategic Pricing Management, and the core Marketing Management course. He has been featured in leading executive programs, including the Wharton School, DukeCE, Columbia University, Boston University, and Suffolk University. He has long been an adviser in brand management and pricing to firms in a variety of industries—consumer packaged goods, health care, agribusiness, energy and power generation, automotive, semiconductors and electronics, lodging and food service, wholesale distribution, financial services, and others. Editor of *Visionary Pricing* (Emerald Press, 2012) and original contributor to Prentice Hall's best-selling *The Strategy and Tactics of Pricing* (now in its 5th edition), he was an early thought leader with the Strategic Pricing Group, Inc., now part of Monitor-Deloitte. His research on value-based marketing, pricing, and brand communication strategy has been cited in popular press outlets such as *The Wall Street Journal, The Christian Science Monitor, The Boston Globe, Across the Board,* and others. His research has been published in leading marketing journals, including *Journal of the Academy of Marketing Science, California Management Review, Sloan Management Review, Marketing Research, Marketing Management, Pricing Strategy & Practice, Journal of Retailing, Public Administration Review, Psychology & Marketing,* and others. He is the recipient of various research awards, including best paper awards from the American Marketing Association and the Academy of Marketing Science.

Introduction

We are in a transitional period between a traditional economy and a digital economy; we are neither fully traditional, nor fully digital. Digital innovation surrounds us, excites us, threatens us, inspires us, and paralyzes us. Which of those verbs you feel comfortable with depends a lot on the world you have grown up in. Millennials are excited and inspired; many Gen Xers are less so.

What is remarkable about this transition is the nature of digital innovation itself and the people who embrace it. Forty years ago the people who embraced digital innovation were engineers and programmers, those who received university degrees that enabled them to swim in the deep waters of mainframe, minicomputers, and serious microcomputers. To them an Apple II computer, or a Macintosh operating system were pretenders, not really serious computing machines. It was an exclusive world, a club of high knowledge buyers who understood and loved sophisticated technology. The icons of this long era were IBM, Hewlett-Packard, Microsoft, and Dell in computers, and Motorola, Blackberry, and Nokia in mobile devices.

However, in the middle of the decade of the 2000s, digital changed in profound ways that upended the world of innovation, of consumer buying and purchasing, and as we will see in this book, upended the world of brand management and marketing. A new digital paradigm emerged grounded in intuitive and broadly accessible innovation principles—simplicity, easy to use, delightful to experience, and engaging. The icons of this new era were Apple, Google, Amazon, Uber, Instagram, Facebook, Twitter—with a penchant for extremely meaningful digital innovation made accessible to everyone. Google published its manifesto as constitutional principles of the new guard: *Innovation comes from everywhere; Focus on the user; Aim to be 10 times better; and Bet on technical insights*—the top 4.

Apple deliberately created an "App Store" that shattered software barriers, opening up computer programming to entrepreneurial developers. These digital innovators created simple and tiny apps that would have been scoffed at just a decade ago, that worked on small and simply elegant mobile devices. What an app did was limited in function, but it did it extremely well with intuitive insight and, most important, functional simplicity. An app was accessible to *everyone* with a mobile device, and the proletarian masses embraced apps, and mobile, in stunning market-driven ways. And digital innovation itself, once the bastion of elite universities and large corporations, now emerged from college dorm rooms, from simple startups that failed as often as they succeeded—but made hundreds of thousands of dollars in days or weeks, because their intuitive digital ideas were instantly downloaded from an app store for free, and embraced by the masses.

This mass market embrace of simple digital innovation by large consumer populations across the globe has empowered consumers in ways never seen before. They are captivated by newfound digital solutions that engage and delight; and emboldened too in their expectations that all brands, products, and services must now embrace the same broadly accepted standards of simplicity, ease of use, delightful to experience, and engaging.

However, many brand marketers remain grounded in the traditional economy—especially the marketing leaders who have accumulated time and tenure and gradually risen in seniority to the top of their profession. Their traditional voice is influential on brand management, product design, and consumer marketing. They seek to retain hierarchical power, and control large reservoirs of market resources and investment capital.

This book is about the clash between these two forces. Consumers have no power individually, but collectively have become remarkably empowered to literally threaten the established order of the traditional economy—not in decades, but in years. My team and I have explored this issue thoroughly, have researched consumers and marketers, interviewed brand managers, sought the insights and expertise of leaders in the field, and looked for best practices wherever we could find them. We share them with you in this book.

It has been a fascinating, illuminating, and delightful journey.

Now together, let's move on to Chapter One.

— Jerry Smith

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1

The Age of the Customer

A tectonic shift is taking place as the economy transforms into the digital economy of the twenty-first century. Clearly visible on the surface, but still not well understood by many brand marketers, is a struggle for power and influence between companies, marketers, and brands on the one hand, and consumers, customers, and their government agencies on the other. We see not-so-subtle symptoms in surprising corners of the corporate world; for example, Microsoft laying off thousands of employees in its mobile phone business, purchased from Nokia only a year ago—once the dominant brand in mobile phones in the early 2000s—as Microsoft tries to transform itself from a desktop computer brand into a cloud computing or mobile brand.

We see the struggle too in a faraway corner of the digital world where a lone programmer, Marco Arment, created a mobile app, called Peace, that filtered out mobile ads and personal online tracking on apps and websites. Mobile ads slow down page loads, drain battery power, and waste data bandwidth, and they open the door to malware and fraud. At $2.99 it instantly shot up to #1 in the US Apple App Store—where it remained for 36 hours. But Marco removed his app just as quickly as he put it up. Why? Because it had the potential to destroy the profit potential of many small (and large) mobile developers and brands—because these brands fundamentally rely on mobile advertising. Marco framed his pivotal move in prescient terms—as a small but significant cog in a war between consumers and advertisers:

> *Ad-blocking is a kind of war—a first-world, low-stakes, both-sides-are-fortunate-to-have-this-kind-of-problem war, but a war nonetheless, with damage hitting both sides. I see war in the Tao Te Ching sense*: *it*

should be avoided when possible; when that isn't possible, war should be entered solemnly, not celebrated.*[1]*

The instant popularity of Peace—like the market success of Uber, Instagram, or Tumblr (also created by Arment)—demonstrates the vast market power being accumulated by consumers as they move about with ease in a mobile and nimble world of rapidly changing and disintegrating digital technology. Yet the struggle between marketer and customer is not about technology per se—digital technology is merely an enabler. Consumers don't care whether Apple's iOS mobile platform, or Google's Android, or the Windows Phone, or BlackBerry platforms win or lose. Or whether their solution is cloud based, or mobile. What they care about is getting things done—searching, sharing, solving, trying, buying—and achieving the outcomes they want simply, effortlessly, and delightfully. The implications of this shifting mindset for most marketers and brands will be defining and historic, and will be clearly evident within five years.

The Empowered Customer

The thesis of this book is that discriminating customers have never before been as empowered to take control of the customer–brand relationship—due to the confluence of three transformational market forces (see Figure 1.1).

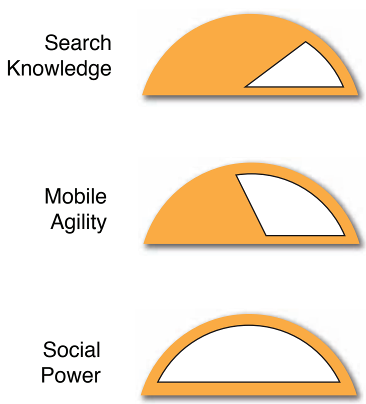

Figure 1.1 The Empowered Customer

Search Knowledge. Search engines Google, Bing, Yahoo, Ask, or AOL enable customers to effortlessly shop, search, and compare information on any product or service—new, existing, or obsolete—to obtain replacement parts, to access product information (manuals, operating instructions), and to obtain advice from social message forums, product use forums, and "how-to" videos on

1. Marco Arment, "Just Doesn't Feel Good," September 18, 2015, Marco.org, http://www.marco.org/2015/09/18/just-doesnt-feel-good.

YouTube channels. Because of their search knowledge, customers have the power to demand better performing products and services, and more favorable prices.

Mobile Agility. Mobile platforms such as Apple iOS, Android, BlackBerry, or Microsoft Windows facilitate access to the vast trove of online information regardless of geographic location—on site at retail comparing a retailer's prices with other competing retailers, or using GPS to suggest nearby shopping alternatives. Because of their mobile agility, customers have the power to substitute immediate and proximal product and service alternatives, dramatically leveraging their ability to negotiate prices and product/service preferences.

Social Power. Facebook, Google+, Twitter, Reddit, Tumblr, LinkedIn, YouTube, Pinterest, Path, or Pheed enable buyers to share, counsel, blog, seek advice, and engage in social dialogue with persons never before met, simultaneously in nearby and distant places, but with common interests and goals, at this very moment in time. Because they are socially connected, customers have greater power to demand equity and fairness vis-à-vis other customers in the brand community, and to pose the imminent threat of broadcasting brand failures—as well as brand successes.

These forces are creating a new generation of high-knowledge buyers, who know as much or more than marketers about what it is they are buying. They know more than retail salespersons, more than telephone or chat support representatives, and often know more than the manufacturer or factory marketers themselves—because these high-knowledge buyers know of competitors across the global or the local Internet economy that the manufacturer had never thought of. The knowledge of these newly empowered customers affects everything about the way they buy—their price sensitivity, what they value, the type of information they process, the comparative shopping they do, and their expectations for performance, service, and experience.

I had an important wedding anniversary this year—all are important of course, but this one was extra special and I wanted to create a real surprise and buy a new wedding ring. I spent time online to check out the website of a local jeweler that I had done business with over the years, and found a perfect ring. After emailing the webpage to myself, I went to the jeweler's retail store to purchase the ring. In store, the saleswoman cheerfully said "Of course, do you have the item number?"

I had better than the item number: I pulled out my iPhone, opened Gmail, and showed her my mobile screen: "Here it is right here. This is your webpage with the picture of the ring and its information." The saleswoman went into the backroom and returned with a *selection* of rings: "I can't find that particular one but here is a selection of other rings that look a lot like that one." Really? I explained why *this* was the ring I wanted—it was simply *the one*. "Why don't you just order it," I said. She went into the backroom again, returned and said: "That manufacturer no longer lists that ring on their website, but let me research it and get back to you."

She got points for offering to help, but failed in the execution: Their website was wrong, and her selling assumptions were just out of date. I had already spent hours online finding the perfect ring—the type, style, color, carat, clarity—and price. Why go through that all over again in a few minutes in the store? She emailed me eight days later saying that she still couldn't find that ring but had found yet another just like it. But I had already gone online again, found my perfect ring at another Internet jeweler—for less money. The ring arrived in two days and the anniversary was a total success. But my customer relationship with that local jeweler will never be the same—because of the transformational impact of digital. This customer had embraced omni-channel shopping (instant availability through various channels and retailers)—with expectations of a seamless experience online, mobile, and in-store—and anticipated immediate satisfaction, even delight. This retailer just had no clue what omni-channel meant, tethered to the old computer in the backroom and trying to sell their limited inventory of in-store rings.

In discussing the millennial generation's expectations of seamlessness, Accenture said: "We define seamlessness as the ability to deliver a consistently personalized, on-brand experience for each individual customer, at every touchpoint—anytime and anywhere."[2] They identify four components of a seamless customer-facing retail experience:

1. Customize brand offerings across channels in the ways millennials want, which typically boils down to providing better, faster, and more memorable service.

2. "Who are the Millennial Shoppers? And What Do They Really Want?" *Accenture*, 2015, 6.

2. Integrate operational elements so that the brand can have a single "conversation" with customers, not one that changes from smartphone to PC to physical store.
3. IT platforms should be integrated to unify their sources of data and boost cross-channel transparency.
4. Team up with technology, data, analytics, and process partners to provide the service performance millennials want because they will not be able to deliver it all themselves. As a result, successful players are collaborating to strengthen their customer value propositions. For instance, a third-party logistics provider can supply same-day delivery services for online purchases, enabling retailers to offer a service customers want without having to invest in an expanded delivery fleet or new routing capabilities.[3]

Digital has a more elemental influence on customers because of what they now can *do*. Customers who are digitally enabled feel a sense of new engagement, of having access to whole new capabilities that are empowering, and they want to use them, to play with them, to experiment with them—to personally experience them. And they want brands to digitally engage with them, not just provide entertaining ads. If they have good digital experience with other brands and your brand doesn't have these digital capabilities, then they wonder why. Digital has raised customer expectations, not only about the product or brand but, more importantly, about customers' participation with—indeed how they interact with—the brand. I did field research on brand managers and their experiences with digital in brand management. One digital marketing manager said: "They [consumers] like when they have their own voice. Even if they don't buy it, they like to feel they changed the product—they feel fulfilled. And they like when they feel that we're listening. It's 'their brand.'"

Some brands recognize all this. And they are responding, paradoxically, by giving customers even more power, by co-opting customers into the very inner core of the brand's marketing and strategy models. For example, Amazon is getting into the video production business, like Hollywood sitcoms and movies. How does it choose from among a

3. Ibid.

sizeable pool of possible movie scripts to find the right one? Rather than relying on the gut instincts of traditional Hollywood movie moguls—a last century model—Amazon deploys a proletarian strategy of crowdsourcing by going directly to its large reservoir of digitally loyal customers and polling their preferences, producing not only the customer's choice among scripts, but also, vitally important, testing, listening, and sensing how and why the script resonates with them.

Starbucks encourages customers to engage digitally with new brand ideas to help improve their retail service model. "Share your ideas," it says on the MyStarbucksIdea webpage; "tell us what you think of other people's ideas and join the discussion." At the time of writing, the site provides links to 45,430 Coffee & Espresso Drink ideas, 22,648 Food ideas, 22,308 Atmosphere & Location ideas, 11,816 Ordering, Payment, & Pick-Up ideas, and many others. Each idea gets voted on, commented on, and accrues points for customer popularity. Here are a few popular ideas: "Be able to use rewards on mobile-ordering," posted by kaitlynseim on July 14, 2015, has accrued 1,580 points. "Please, please give me a star for each coffee I purchase," posted by camptatum on October 1, 2012, has accrued 363,500 points. And, "Mobile apps should save favorite drink orders and favorite stores," posted by Snow on April 1, 2015, has accrued 570 points. On the My Starbucks Idea website it lists 20 very popular ideas that "came from you, our customers," of which 13 have been "Launched," one is "In the Works," and 6 are being "Reviewed."[4]

Doubt that these newly empowered buyers are more knowledgeable than marketers? One Australian specialty retailer, upset at buyers who engaged in "showrooming"—browsing the retail store and then buying online elsewhere—instituted a policy of charging a $5 fee for in-store browsing. Here's the content of the sign the store posted:[5]

4. My Starbucks Idea, http://mystarbucksidea.force.com/apex/ideahome.

5. "Dumb Policy: Store Charges $5 Just to Look at Goods, to Keep People from Looking and Then Buying Online," *techdirt,* https://www.techdirt.com/articles/20130326/16500822469/dumb-policy-store-charges-5-just-to-look-goods-to-keep-people-looking-then-buying-online.shtml.

Box 1.1: Showrooming Forbidden

Dear Customers,

As of the first of February, this store will be charging people a $5 fee per person for "just looking."

The $5 fee will be deducted when goods are purchased.

Why has this come about?

There has been high volume of people who use this store as a reference and then purchase goods elsewhere. These people are unaware our prices are almost the same as the other stores plus we have products simply not available anywhere else.

This policy is in line with many other clothing, shoe and electronic stores who are also facing the same issue.

Source: "Dumb Policy: Store Charges $5 Just to Look at Goods, to Keep People from Looking and Then Buying Online," techdirt, https://www.techdirt.com/articles/20130326/16500822469/dumb-policy-store-charges-5-just-to-look-goods-to-keep-people-looking-then-buying-online.shtml.

This brick-and-mortar retailer may have been frustrated, but its short-sighted policy demonstrates clearly that it is way behind its savvy customers. Even worse, a photo of the store's policy sign (from an amused shopper's smartphone camera) went viral via Reddit, followed by a string of online comments under the heading "dumb retailer." In France, the same showrooming issue surfaced when the French National Assembly introduced a "PROPOSED LAW to preserve the vitality of commerce in urban centers," forcing French online retailers to charge the same prices as urban city brick-and-mortar retailers:

Box 1.2: French National Assembly Law

French National Assembly, Proposed Law, April 2013

Ladies and Gentlemen,

For several decades, the situation of shops of downtown knows increasing difficulties . . . Currently, regardless of the need to practice a trade margin, the prices charged by distributors [in the] city are often much higher than the prices charged by suppliers on their website for online sales.

> This leads the [local] shops [to] become mere showcases for product comparison, products that consumers prefer and then buy online at lower prices.
>
> This decay of urban centers also weighs on other sectors such as the hospitality industry.
>
> Also, the proposal before you is designed to prevent suppliers to sell on their web platforms at a price below the price at which they sell to [city] distributors. The prices of products sold online may [thus] well remain below, but in a reasonable and acceptable level.
>
> Source: [No. 891, National Assembly, Constitution of 4 October 1958, Fourteenth Parliament, Recorded as the Presidency of the National Assembly on 3 April 2013.]

Showrooming of course is a highly rational buyer strategy to make price comparisons immediately as buyers browse websites via mobile in retail stores, or computer or tablet browser at home. Market survey company Gallup found that among "U.S. consumers, 40% claimed to have ever showroomed in the past, [although] just 6% said they had showroomed during their most recent trip to a retail store."[6] Digital researchers at BI Intelligence did a recent study of retail stores that appear to be especially vulnerable to showrooming. The ten retailers they say are most vulnerable to showroom shoppers are mainstay brick-and-mortar chains (in rank order): Bed Bath & Beyond, PetSmart, Toys "R" Us, Best Buy, Sears, Barnes & Noble, Kohl's, Target, Costco, and JCPenney (see Figure 1.2).[7]

How are retail chains responding to the showrooming threat? Best Buy matches the prices of 19 major online competitors, including Amazon and Buy.com—a risky strategy competing against online sellers with minimal brick-and-mortar assets. Target introduced its own price matching policy vis-à-vis online prices from Amazon, Walmart, Best Buy, and Toys "R" Us. Target also sent an urgent letter to its suppliers asking them to create slightly differentiated products that would set Target apart from competitors and shield it from showrooming price comparisons.[8] In desperation,

6. "State of the American Consumer: Insights for Business Leaders," *Gallup*, 2014, 36.
7. "How Big Retailers Are Beating Back the Mobile Showrooming Threat," *Business Insider,* August 9, 2013. http://www.businessinsider.com/mobile-showrooming-threatens-retail-2013-8.
8. Ann Zimmerman, "Showdown Over 'Showrooming,'" *The Wall Street Journal,* January 23, 2012, http://online.wsj.com/article/SB10001424052970204624204577177242516227440.html.

Retailers Most Vulnerable to Showrooming

1. Bed, Bath and Beyond
2. PetSmart
3. Toys “R” Us
4. Best Buy
5. Sears
6. Barnes and Noble
7. Kohl’s
8. Target
9. Costco
10. JC Penney

Figure 1.2 Vulnerable Retailers

Source: “How Big Retailers Are Beating Back the Mobile Showrooming Threat,” *Business Insider*, August 9, 2013. http://www.businessinsider.com/mobile-showrooming-threatens-retail-2013-8.

“some retail chains are blocking cell signals in-store, or adopting proprietary barcodes that won’t allow shoppers to check prices at competitors’ sites,” said BI Intelligence—a misguided policy that only annoys powerful consumers.[9]

L.L. Bean has a long and famously loyal base of outdoor enthusiast customers, voted the number 2 brand for excellence in customer service and experience. But in recent years many of L.L. Bean’s customers have migrated to a digital relationship with the L.L. Bean brand. Online revenues have grown to exceed catalog orders. As phone-in order volume declined, the company closed one of its four call centers in Maine, displacing 220 year-round employees. No longer is the brand relationship driven only by product, or even by service delivery. Increasingly, the brand relationship is being driven by its digital relationship anchored in an online brand experience that envelops the customer in an experiential customer-centric world of product information, lifestyle information, and online customer sharing—all seamlessly sustained by an invisible platform of digital customer purchase and relationship data.

9. Ibid.

Yet at the same time L.L. Bean is opening more retail stores near areas where the company can offer its hands-on Outdoor Discovery Schools—sensing that physically touching is an essential complement to online experiencing the various dimensions of the L.L. Bean brand. This is an example of how the revolution of the new digital economy is changing traditional twentieth-century business models. For some categories, retail stores will increasingly become *offline product showrooms* (not stores to actually purchase) or fulfillment sites. For example, the *Wall Street Journal* cited Blue Nile, a leading online jeweler that established "web rooms" with less than 500 square feet each—about one-sixth the size of a typical jewelry store. The web rooms have available 300 sample rings for trying on, and consumers then pick a diamond from one of 200,000 that Blue Nile displays on its website. Blue Nile "is able to turn its inventory about 11 times a year compared with about twice for a typical jewelry chain. And Blue Nile doesn't have as much risk because it waits for a customer to place an order before taking possession of the goods, reducing its working capital needs."[10]

Macy's is similarly testing offline showrooms with its swimsuit and workout categories. "Instead of stuffing racks with every size and style in these departments, Macy's displayed only one item of each style. Shoppers used an app on their mobile phones to alert Macy's sales staff of the style and size they wanted to try on and that item was sent to a specified dressing room."[11]

Home Depot is investing in what they call "Interconnected Retail," a seamless platform across all commerce channels with an enhanced web and mobile experience, and online sales conversion. Forty percent of online orders were picked up in stores through its BOPIS (Buy Online, Pickup In Store today), BOSS (Buy Online Ship to Store), and BORIS (Buy Online, Return In Store) programs. They are now piloting BODFS (Buy Online Deliver From Store). They are further investing in large-scale direct fulfillment centers to facilitate Amazon-like direct-to-customer delivery with the capability to deliver 90% of their customers' parcel orders in the United States within two days.

10. Suzanne Kapner, "Web Retailers, Now with Stores, Teach New Tricks," *The Wall Street Journal*, August 11, 2015, http://www.wsj.com/articles/web-retailers-now-with-stores-teach-new-tricks-1439285580.

11. Ibid.

Zappos is the largest online shoe store in the world, but not because of competing on price. Its founding vision in 1999: "One day, 30% of all retail transactions in the US will be online. People will buy from the company with the best service and the best selection. Zappos.com will be that online store." Shoes have to look good on you, and they have to fit. So you have to try them on—that's why you go to your local shoe store. Zappos gets it perfectly: They have an unlimited returns policy, free shipping, and 24-hour generous customer service. This customer's sentiment was common among Zappos' customers:

Box 1.3: Zappos' Customer Comments

Two days ago I had to order new shoes for my son, and unbelievably I got them yesterday. He was excited to put them on and see how fast he could run! He wore them (Nikes) for less than an hour, and shockingly the soles began to separate from the uppers. When I went to Zappos online and read their return policy it said I could only return unworn shoes . . . I thought it would be best to call customer service to see if they would consider an exchange anyway. Surprisingly, they did even more than that for me, and clearly with a smile on their face! I was able to exchange the shoes for a new pair, which cost $8.00 more and they waived the extra price difference! As if that weren't enough to make me extremely happy, I don't even have to go through the hassle of sending the defective pair back! She said I could throw away, donate them, or just keep as kick-around type of shoes!

Source: Zappos.com Customer Testimonials, Kimberly S. 09/02/2014.

Now Zappos is experimenting with retail partnerships with small mom-and-pop brick-and-mortar stores, giving it a physical presence to augment its cloud-based business model. "The convergence of online and offline seems to be an unstoppable force that I believe will ultimately change the face of retail," Zappos CEO Tony Hsieh explained. "We are currently in a really interesting time for retail where on one hand many online stores are looking to have more of a brick-and-mortar presence for branding purposes (which is a big part of why we are launching a 20,000-square-foot Zappos pop-up shop in downtown Las Vegas for the holidays) and on the other hand many brick-and-mortar stores are looking to enhance their experience with more access to inventory in the cloud."[12] Note the trends here: inventory is being stored centrally in the cloud, while brick-and-mortar stores are situated locally to enable customers to conveniently experience the brand—to try on, get personal advice, and get customer support.

Smart Brands Engage Consumers

The age of the customer is also underpinned by the vast amount of user-generated content (UGC)—email, chat, tweets, comments, games—supplemented by polling, crowdsourcing, online testing, and customer clickstream data. UGC can be a rich source of information for other consumers, but importantly, also for your brand.

The new marketing research is digital, dynamic, and dedicated to the customer's decision journey and building, nurturing, and listening to customers, customer relationships, and customer communities. For example, Frito Lay's Doritos brand invites customers to design their own Doritos commercial in the "Crash the Super Bowl" contest; the top two winners are shown live during the Super Bowl broadcast. In 2013, the contest moved to Facebook, generating more than 100 million Facebook views of the top five ads. But more important, Doritos fans shared, liked or disliked, tweeted, and commented on the ads (one ad "Finger Cleaner" had 4.1 million views on YouTube with 10,464 likes, 633 dislikes, and 8,668 shares on Twitter, Facebook, Google+, and Reddit). Meanwhile, Frito Lay brand managers listened to how fans engaged with each other and with the Doritos brand narrative, providing invaluable intelligence for the brand. For example, they listened to customers' language, personality, and recurring themes—"lots of babies, dogs, guys hitting on girls, and Cheech-and-Chong humor . . . [evoking] long-tail keywords to build natural SEO and target what consumers really want from [the] product," said blogger Aimee Millwood.[13]

Ask yourself: What are your customers' decision journeys and where does your brand engage with customers—digitally? Are you building and

12. Gregory Ferenstein, "A Zappos Pop-up Shop Becomes a Test to Change the Nature of Mom-and-Pop Retail," *VB News*, November 19, 2014, http://venturebeat.com/2014/11/19/a-zappos-pop-up-shop-becomes-a-test-to-change-the-nature-of-mom-and-pop-retail/.

13. Aimee Millwood, "How Doritos Wins Every Super Bowl with UGC," February 2, 2015, http://blog.yotpo.com/2015/02/02/how-doritos-wins-every-super-bowl-with-ugc/.

leveraging digital customer relationships? What kind of UGC does your company do with your customers?

To empower customers, Home Depot's DesignConnect invites customers to join online to "Collaborate with Our Design Professionals to Create the Perfect Kitchen," using online tools that enable customers to get things done. No more worrying about finding the time and money to hire an architect or interior designer. Do it yourself with the free consultation of a Home Depot professional—accessed via chat or email. Create, store, retrieve, and organize your design ideas online, and when you're ready it's easy to move to the next step—to purchase and arrange installation. The DesignConnect tool empowers customers to do what they want, when they want, in ways they want—to simply get things done.

The imperative now is for every company to do the same thing in their own market space, to build digital assets and tools that satisfy and delight customers, and enable them to do things in unique and compelling ways—with your brand as an essential complement. This means investing in engaging and alluring online sites, intuitive mobile apps, and social, video, and message assets for emailing, sharing, posting, blogging, rating, reviewing, liking, disliking, tweeting, connecting, and linking. They involve smart marketing investments in online, mobile, and messaging.

What's the payoff for such ubiquitous investment? The customer's sustained engagement—and loyalty. But it's a new form of loyalty that is customer driven, not brand driven. What's the penalty for putting off this investment? Customers opt out from your brand and move on to another more engaging one.

Ask yourself: Are you building digital assets and tools for customer empowerment and engagement? What kinds of digital assets and tools have you provided your customers to build stronger digital customer relationships?

Researching Customer Empowerment

I work closely with experts in both digital and brand management, and for this book my team and I did research through which we could explore this issue of customer empowerment. We wanted to know more about these consumers, but also about the marketers and brands who marketed to them—about their contrasting attitudes and beliefs in this new environment. Were their views in alignment and agreement, or drifting apart—with different assumptions and divergent views of the new reality of living with an online world? We conducted in-depth interviews with brand managers, digital marketing managers, digital agency personnel, senior marketing leaders, and thought-leaders to see how they were responding in this new era of digital innovation. These interviews provided insights into the impact of digital marketing on brands, marketing managers, and brand management, including their views of the role of customers in their relationships with brands in the digital economy. The viewpoints and perspectives from these, and other interviews, are featured throughout this book in order to share best practice examples on how many are rising to this new challenge and meeting it head-on.

Working with digital and brand marketing partners, we conducted the Boston College (BC) Customer Empowerment Research Study consisting of two parallel quantitative online survey studies; one with 406 consumers aged 18–64 to assess consumers' core opinions regarding digital experiences, to better understand consumer attitudes and experience regarding online shopping behaviors, and to understand consumers' preferences regarding online contact with companies and brands. The other survey, with 219 marketing executives and managers, quantitatively measured their attitudes and behaviors with regard to the same issues studied in the consumer survey. The marketer survey included President, CEO, COO, Owner or Board Member (20%), Director of Marketing or Marketing Department Head (16%), Marketing Manager, Brand Manager or Marketing Team Leader (39%), Assistant/Associate Marketing Manager/Brand Manager (14%), CIO, CAO, VP, SVP, or EVP of Digital (5%), and CMO, VP, SVP, or EVP of Marketing (5%). Forty-nine percent of managerial respondents were from companies with more than 1,000 full-time employees.

An Omni-Channel World

The number of channels consumers use is expanding constantly and consumers glide effortlessly from a brand's online site to Facebook, to a review site, to a Tumblr blog, to a shopping bot, to a retailer's app, and so on. Brands seek to reach the consumer, it seems, everywhere they are. Omni-channel can be confusing, defined in various ways by consultants, brands, and vendors. What matters most is the expectations of ever-connected consumers.

First, it is increasingly the case that consumers expect *seamless* omnichannel brand experiences—in which they can smoothly and deftly transition, intercommunicate, and interconnect between platforms, sites, and locations. This is not the same as multichannel marketing in which brands simply do coordinated marketing across retail, direct marketing, and digital channels. Omni-channel means the brand must be ever present, everywhere at once, and yet personalized, flexible, and with one-on-one customer intimacy.

As an example of this challenge, according to the Board of Governors of the Federal Reserve, 87% of the U.S. population owned or had regular access to a mobile phone in December 2014. Thirty-nine percent have used their mobile phone for mobile banking; and 22% have used their mobile phone for mobile payments. Although 87% of consumers used a bank branch in the last 12 months, and 75% used an ATM, 74% used online banking, and 33% used telephone banking.[14] Digital's impact on experience is real; however, the problem is not a purely "digital-only" one. It spans various channels—web-based online, mobile, retail, kiosk, telephone, and others.

The nerve center of the brand relationship is located online. In the BC Customer Empowerment Research Study, we asked consumers to tell us their preferred ways to *receive* information about new products or services from a company. The number one response by far was email (80%), followed by U.S. Mail (41%), and then Facebook (23%).

Concurrent channel usage should now be regarded as the new normal for connected consumers. Google survey research on 6,000 smartphone users aged 18–54 found that 71% of in-store shoppers who use smartphones for online research say their device has become more important to their in-store experience. Fifty percent of consumers will visit a store within one day of a local search on their smartphone. Scott Zalaznik, Sprint's vice president of digital, said: "Ninety percent of our customers start their journey online but buy in-store…and a quarter of those who click on our mobile search banners end up visiting our stores."[15]

According to Google, 42% of in-store shoppers search for information online while in-store. For these in-store online searches, they usually use search engines (64%). However, nearly half use the retailer's own site or

14. "Consumers and Mobile Financial Services 2015," Board of Governors of the Federal Reserve System, http://www.federalreserve.gov/econresdata/consumers-and-mobile-financial-services-report-201503.pdf.

15. Sameer Samat, "The 3 New Realities of Local Retail," Think with Google, October 2014, https://think.storage.googleapis.com/docs/how-digital-connects-shoppers-to-local-stores_articles.pdf.

Figure 1.3 Simultaneous Channel Usage

Source: "New Research Shows How Digital Connects Shoppers to Local Stores," Think with Google, October 2014, https://www.thinkwithgoogle.com/articles/how-digital-connects-shoppers-to-local-stores.html. Used with permission.

app, and only 30% look up details from a different retailer's website or app (see Figure 1.3).

What this says is that for consumers the line between physical retail and online access has vanished. Furthermore, consumers are increasingly looking to branded apps to do their browsing and shopping, enabling brands to strengthen the customer–brand relationship—and dissuade them from turning to competitive brands. The trend toward apps, rather than merely using a mobile browser, is important because it encourages consumers to process brand information in the brand's proprietary environment—not the broader competitive market environment of open search—and therefore properly frames consumers' perceptions about the brand's features and benefits.

Another important insight: For many consumers the local store is becoming more like a local distribution center where they can "pop in quickly to pick up a product they've researched in advance," said Google. "When asked what information would be helpful to have in local search results, respondents in [their] Digital Impact on In-Store Shopping study listed 'product availability at a nearby store' (74%) and 'pricing at that store' (75%). That's why it's important to promote and share inventory seamlessly across all channels."[16]

16. Sameer Samat, "The 3 New Realities of Local Retail," Think with Google, October 2014, https://think.storage.googleapis.com/docs/how-digital-connects-shoppers-to-local-stores_articles.pdf.

Macy's vice president of marketing strategy, Serena Potter, emphasized the importance of having local store inventory visible to consumers browsing its website or searching. Macy's uses Google local inventory ads to connect shoppers with information about the products they seek. "We can tell her that there are eight of what she wants in her size and desired color available right now in the store that's five blocks away."[17]

Sephora, a leading cosmetics and beauty retailer, especially focuses on its mobile app to leverage a better in-store customer experience by giving customers direct access to product ratings and reviews. According to Bridget Dolan, vice president of digital media at Sephora, "We think one of the biggest opportunities that we have in retail is for our customers to leverage their phones as a shopping assistant when they're standing in the store. Having access to this information is that perfect new moment for customers to find everything they're looking for and get advice from Sephora."[18]

However, research also suggests that when it comes to delivering a seamless digital–physical experience brands often fall short of consumer expectations. In the digital economy, customer journeys are more fluid, more varied, with different start and end points—with different channels and media being important at different moments. The moment of decision may be early and instantaneous after the failure of one's trusted old product, such as a food processor, or late after extensive thought or deliberation, such as buying a new car—what matters however is recognizing and responding in that moment of decision. Google researchers said:

> *People want to feel that the retailer understands them, and customization is a way to accomplish that. Shoppers want stores to provide experiences tailored just for them; 85% say they'd be more likely to shop in places that offer personalized coupons and exclusive offers in-store. For example, retailers could offer deals that shoppers can use at a nearby location (30% off today only at a store near you!). In addition, they can provide shoppers with promotions for related items as well as alternative*

17. Ibid.

18. "New Research Shows How Digital Connects Shoppers to Local Stores," Think with Google, October 2014, https://www.thinkwithgoogle.com/articles/how-digital-connects-shoppers-to-local-stores.html.

fulfillment options, such as free home delivery, should the product they're interested in not be in stock.[19]

Amazon has one of the best recommendation engines, presenting shoppers with new information, offers, and suggestions that are not only relevant to them, but also of immediate use in the moment. For example, Amazon's recommendation engine automatically suggests items that are "Frequently Bought Together . . . ," or "Customers Who Bought This Item Also Bought . . . ," or "Sponsored Products Related To This Item . . ." or "Special Offers or Product Promotions," or "Your Recently Viewed Items and Featured Recommendations—Inspired by your recent browsing history."

Connected Consumers Create On-Demand Expectations

Research confirms that smartphones are now the number one way consumers access the Internet—coming in ahead of personal computers, work computers, and tablets. Google says that searches on mobile devices now outnumber those on personal computers in ten countries, including the United States and Japan.[20] What do consumers do with their smartphones? More than half say that, at least daily, they do seven essential activities—accessing email, texting, searching on the Internet, social networking, using their smartphones while watching TV, getting news alerts, and playing games, according to salesforce.com (see Figure 1.4).

Mobile offers certain channel-specific value in that it enables brands a greater capacity for real-time context and consumer-focused interactions. Yet, despite the potential, consumers nonetheless routinely show signs of dissatisfaction and annoyance with the mobile delivery of many brand marketers. For example, in the BC Customer Empowerment Research Study 68% of consumers decided not to install a mobile app

19. "New Research Shows How Digital Connects Shoppers to Local Stores," Think with Google, October 2014, https://www.thinkwithgoogle.com/articles/how-digital-connects-shoppers-to-local-stores.html.

20. Alistair Barr, "Google Rolls Out New Ads as Mobile Searches Top PCs in 10 Countries," Smartphone Advertising, May 25, 2015, http://smartphoneadvertising.ca/2015/google-rolls-out-new-ads-as-mobile-searches-top-pcs-in-10-countries/.

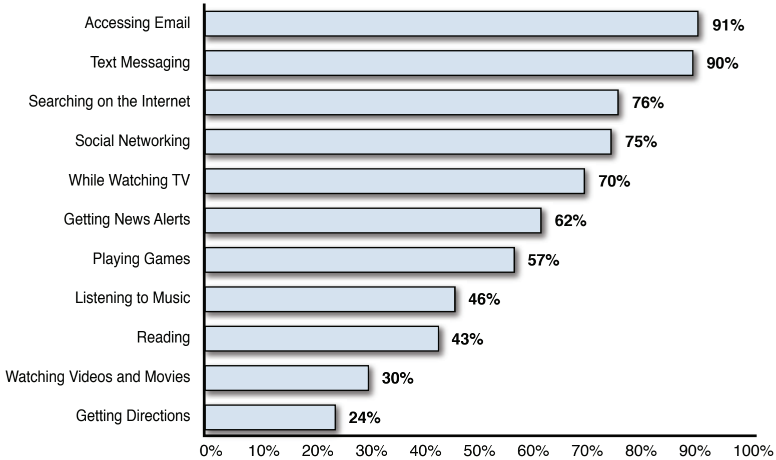

Figure 1.4 Activities Performed Daily with Smartphone

Source: 2014 Mobile Behavior Report, salesforce.com/marketingcloud of 470 consumers.

when they found out how much personal information they would need to share in order to use it. And 59% uninstalled an app on their mobile device because they found out it was collecting personal information that they didn't want to share. However, when we broadened our inquiry into the top reasons they chose to uninstall an app, the number one reason was that "the app was not useful to me," cited by 74% of respondents. Sixty-three percent said that they needed to "free up memory on my mobile phone," suggesting that they deleted those apps that were deemed expendable. Otherwise, 42% were "concerned about personal data the company is collecting about me," and 39% were annoyed by "too many marketing offers" (see Figure 1.5).

These research results highlight the fact that many of the mobile apps some brands offer today are simple "Generation 1.0" apps that essentially replicate the basic functions of a company's website, or worse—they are token apps that enable the company to claim they are a participant in the digital economy, but consumers sense they have not seriously thought through the incremental utility that should be evident in a really useful app. While on vacation last spring I went to a barbershop and saw a promotional sign inside the shop that said "Get our mobile app." I enthusiastically asked the barber if the app was available on the Apple App Store. Yes she said, so I checked it out. Sure enough there it was.

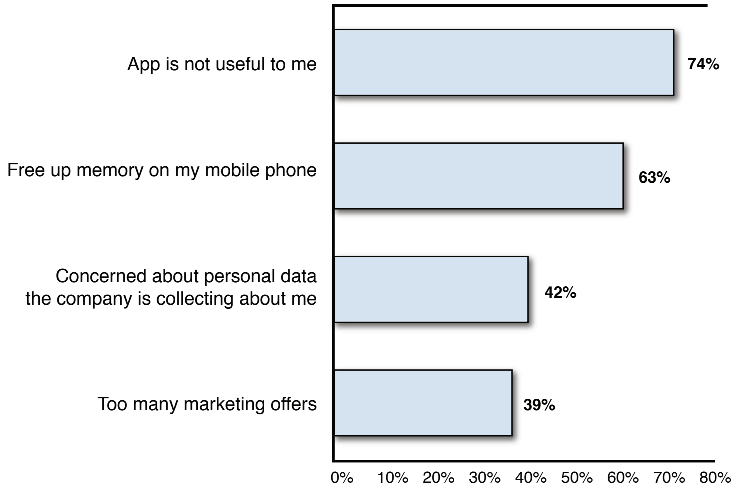

Figure 1.5 Top Reasons You Chose to Uninstall an App

Source: Boston College Customer Empowerment Research Study, 2015.

I quickly downloaded it. The app lets you find the brand's barber locations—any smartphone has that function built in, with Siri on the Apple iPhone for example; and you can check in for an appointment. That's it. Within 3 minutes I had deleted it from my iPhone. One customer wrote this critical review:

> *Decided to add the App to my iPhone for convenience and quicker response. Downloaded from iTunes and installed the [barber shop chain] app. All it will let me do is make a phone call or get directions. I already have the Salon in my contact list, so an App that does the same is redundant and time consuming . . . if you do NOT allow [location] tracking the App does not work. Given my chronic battery consumption problem, allowing tracking is a bad idea. Will have to fall back to using my desktop after wasting [an] hour or two with the useless App.*

Here the consumer defaulted back to a desktop website to interact with the brand. However, given the dramatic trending of consumers reliance on mobile for Internet access, brands must either offer a mobile-optimized website or design a mobile app—rather than offer a desktop website that is not mobile optimized. In 2015, Google made a definitive statement to brands and app developers that they needed to update their websites to be mobile friendly. Google changed its structural search algorithm to increase its emphasis on mobile usability as a ranking factor. The algorithm has a determining impact on search results, relegating nonmobile optimized websites to lower search results ranking.[21]

Researchers at salesforce.com summarized the issue with mobile optimization: "A mobile-optimized website is a make-or-break opportunity for brands. Mobile-optimized websites make it easier for consumers to access content on smaller screens, decreasing the need to zoom in to read text and making it easier to find and tap relevant information." However, their research detected significant frustration even with mobile-optimized websites by more than half of consumers:

> *While 54% of consumers agree that it's easier to find information on mobile-optimized websites, 54% are also dissatisfied, saying mobile-optimized websites don't provide enough information. Mobile-optimized sites may be more user-friendly (67% also say they run more quickly), but they aren't meeting users' demands for how much content is actually stored on a mobile site.*[22]

Furthermore, it is not enough to simply offer an app. Consumers now expect apps to demonstrate high quality—similar to the mobile experience they get with other highly useful apps, such as Snapchat, Instagram, Spotify, Google Maps, Pinterest, and Pandora.

Socially Empowered Consumers

One brand manager said from our field research:

> *Consumers drive digital marketing. They dictate what platforms to use. Brand managers need to think where consumers will be going in the future, not where they are now—they need to be thinking ahead of consumers. Everything is public—it's hard to control social media, which gives consumers more power. Brand managers are still necessary*

21. See Jayson DeMers, "Is Your Website Optimized For Mobile? You Have Until April 21 To Get It Done," *Forbes*, March 31, 2015, http://www.forbes.com/sites/jaysondemers/2015/03/31/is-your-website-optimized-for-mobile-you-have-until-april-21-to-get-it-done/.

22. "2014 Mobile Behavior Report," salesforce.com/marketingcloud, 27.

to ensure branding is consistent and to control every touchpoint and communication that involves their brand/product.

Consumers increasingly use social media to follow brands and make comments about brand experiences—on the major social platforms: Facebook, LinkedIn, Twitter, Pinterest, Tumblr, and others. More than half (53%) liked or followed a brand on social media, according to salesforce.com.[23] According to research by Edison Research and Triton Digital of 2,023 American consumers, Instagram is now tied as the second-most popular social network (with LinkedIn), behind Facebook, whereas Pinterest, Tumblr, and Vine have all shown significant growth recently. Their survey asked: "Which one social networking site or service do they use most to connect with brands or products?" Seventy-six percent say Facebook, followed by 10% Twitter, and 4% Instagram. More than one-third of social media users (36%) say they consciously follow brands or companies on social media.[24]

However, social media has also become an important way for consumers to *interact* with brands. Fifty-one percent of American consumers say they have written online reviews for businesses, products, or services, according to Goodsnitch, and the majority (82%) of those wrote both negative and positive reviews.[25] More than seven in ten (73%) believe it is important to write online reviews for local businesses. And 85% say that knowing a business has received positive feedback makes them more likely to purchase that company's products or services.[26]

Consumers are especially influenced by negative reviews—much more so than positive reviews. Research by the Google+ local team of 2,500 Internet users 25 years and older found that "85% of consumers indicated that they would be 'not likely' or 'somewhat unlikely' to choose a business with negative reviews. This response seemed

23. "2014 Mobile Behavior Report," salesforce.com/marketingcloud.

24. "The Social Habit 2014," Edison Research and Triton Digital, http://www.edisonresearch.com/download-social-habit-2014-102971045821021/.

25. Elizabeth S. Mitchell, "STUDY: Majority of Consumers Feel Leveraging Online Reviews Is Key to Brand Image," *PRNewsr*, June 10, 2015, http://www.adweek.com/prnewser/study-majority-of-consumers-feel-leveraging-online-reviews-is-key-to-brand-image/115063.

26. Ibid.

independent of industry. It was heavily skewed toward the 'not likely' with over 62% of all respondents indicating they would not be likely to frequent a business with negative reviews. However when asked the same question about positive reviews, consumers were nowhere near as likely to look upon positive reviews as reason to choose a business. Between 44% and 53% indicated that they were somewhat or very likely to [choose] a business with positive reviews. But the vast majority of those were 'somewhat likely' rather than 'very likely' indicating a degree of caution even among those that were predisposed to favor the business based on positive reviews. 47% and 56% of respondents indicated that would remain somewhat unlikely or not likely to choose a business based on positive reviews. That is a large degree of skepticism."[27]

Consumers increasingly look to social media as a useful customer service touchpoint to resolve problems or offer favorable or unfavorable comments. For example, at a vacation home I set up a "seasonal" Internet/telephone package with the regional telecommunications company—I want the service to be "on" when I am staying there (usually 2 or 3 months), and "off" the rest of the year. However, I experienced considerable hassle in service response when I called into the company to turn the seasonal services off. Inevitably I went through a long phone tree to get to the correct representative, who would then reroute me to someone else, and to someone else. On one call I told the person in exasperation how nice he was, but I had just wasted 93 minutes trying to turn my seasonal service off for the year. That evening I sent out a tweet broadcasting my poor service experience with this company. The next morning I had a cheery response from a company agent in Denver apologizing for my troubles, asking how he could help. He promptly followed through on my request, sent me a confirmation email, and offered to help further. Now whenever I want to turn my seasonal services on or off I simply email this same representative and he handles my request without a hitch.

I'm not alone—social media is effective because it sends notice publically to the broader brand community—indeed, to anyone happening

27. Mark Blumenthal, "Do Positive Reviews Motivate Consumers," Understanding Google My Business & Local Search, April 22, 2014, http://blumenthals.com/blog/2014/04/22/do-positive-reviews-motivate-consumers/.

to encounter the brand's comment while browsing social media. The number of users turning to social media as a *customer service touchpoint* to address specific service issues (versus general brand comments) has grown to 11%, according to eDigitalResearch's survey of 2,000 consumers. Six percent have used social media to send positive feedback about a company's service response, compared to 2% who said they have used this touchpoint to send a complaint.[28] One-third (37%) of those surveyed now expect to be able to contact a brand by live chat. Notice the difference between these numbers and the research cited above that 51% of American consumers say they have written online reviews for businesses, products, or services. What we are seeing is that consumers are much more likely to use social media to broadcast their dissatisfaction or satisfaction with a brand than they are to use social media to send a specific message or complaint directly to the brand. The imperative for brands to monitor consumer conservations in social media about your brand is essential.

However, what is especially revealing is that consumers not only expect brands to be present on social media, but also expect a speedy and personal response to their social posts or messages. For example, The Social Habit research study (from Edison Research and Triton Digital) found that of those consumers who have ever attempted to contact a brand, product, or company through social media for customer support, 32% expect a response within 30 minutes, and 42% expect a response within 60 minutes. Fifty-seven percent expect the same response time at night and on weekends as during normal business hours. And 24% expect a reply within 30 minutes, regardless of when contact was made (see Figure 1.6).

Digital has changed perceptions of time and social distance between customer and brand, between customer and customer, and between customer and product expert (bloggers, reviewers). Problems now must be resolved instantly or in hours, not days or weeks. Otherwise customers will tweet their dissatisfaction with a hashtag, which gets broadcast to countless potential downstream followers. Blogger Jeff Jacobs describes getting his order filled incorrectly at the drive-in window of Culver's, a

28. "Survey: Shoppers Use Social Media for Praise More Than Blame," *Retailing-Today*, June 1, 2015, http://www.retailingtoday.com/article/survey-shoppers-use-social-media-praise-more-blame.

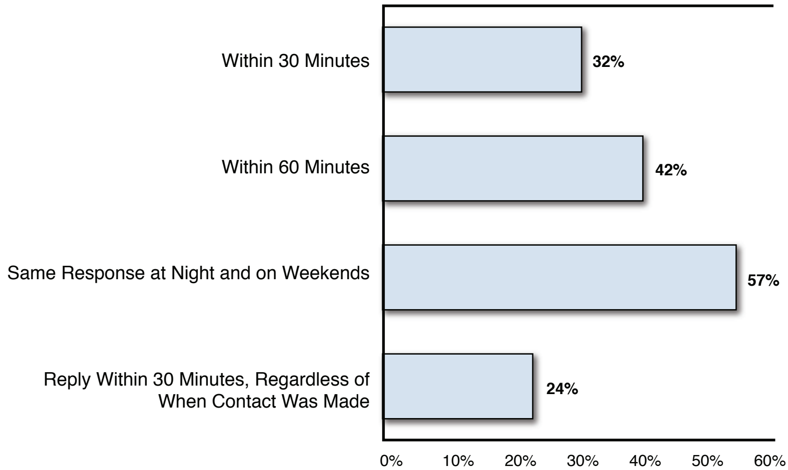

Figure 1.6 Expected Response to Social Media Posts to Brands

Source: From a subsample of the Social Habit Research Study, 690 persons from a sample of over 3,000 American social media users. Jay Baer, "42 Percent of Consumers Complaining in Social Media Expect 60 Minute Response Time," Convince&Convert, http://www.convinceandconvert.com/social-media-research/42-percent-ofconsumers-complaining-in-social-media-expect-60-minute-response-time/.

Wisconsin-based burger chain. He quickly tweeted the issue and got a response in 37 minutes; here's part of the twitter stream:

> *Thanks, @culvers Gville SC for double butter bacon burger delivered in the drive thru line. Except that I ordered a tenderloin.*
>
> *@jeffreypjacobs Whoops! We're sorry. Would you please give us the details here http://bit.ly/RXUkUh so we can help make this right? Thanks.*
>
> *@culvers done. thanks for the opportunity to share my thoughts.*
>
> *@jeffreypjacobs We appreciate you reaching out. Since we goofed, your next Value Basket is on us. DM and follow for details.*

The final resolution: "BOTH the corporate Culver's folks AND the local [Greenville, South Carolina] owner sent me a coupon for a 'make-up' basket, and I got a call from the owner, as well as an email."[29]

29. Jeff Jacobs, "Is Twitter Your #Complaint Platform of Choice? While 70% of Companies Ignore, @Culvers is listening." Square Peg….Round Hole. http://jeffreypjacobs.com/post/37308776479/is-twitter-your-complaint-platform-of-choice.

Notice what transpired here: A smart digital management team at Culver's monitored Twitter for conversations about the Culver brand and discovered a less-than-satisfied customer—this customer happened to have 108,000 followers on Twitter. The brand digitally joined in the conversation with the customer one-to-one, apologized for making a mistake, asked for details of the error, and offered compensation (a free meal)—marketing theorists call this service recovery. This brand recognized the power of this customer at this moment in time—and the ease (due to digital) at which this customer assumed a more assertive posture in the customer—brand relationship.

Customer-Driven Brand Loyalty

One of the most startling discoveries from my research was the considerable disconnect between today's connected consumers and brands when it came to the subject of loyalty. Today's empowered consumers believe that brand loyalty means brands are loyal to them as customers, and not that they as customers are necessarily loyal to brands. Accenture's study on brand loyalty "found that 95 percent or more of Millennials [say] they want their brands to court them actively, and coupons sent via email or mailed to their homes currently (or will in the future) have the most influence on them."[30] Jake Sorofman of Gartner highlighted key research findings from two leading voices in digital about the directional changes in customer loyalty taking place in the digital economy: "For the third year straight, a Deloitte survey of 4,047 consumers across 28 product categories and 350 brands found brand loyalty declining significantly. It's hardly surprising when you consider the growing empowerment of the connected consumer." He then cited this key research finding based on a published research report:

> *A recent study conducted by customer experience vendor Kitewheel suggests that 73% of consumers feel loyalty programs "should be a way for brands to show how loyal they are to them as customers." However, by and large, marketing executives have a different view: 66% believe loyalty programs are for customers to show how loyal they are to a business.*

30. "Who Are the Millennial Shoppers? And What Do They Really Want," *Accenture*, 2015.

He concluded: "loyalty should be a two-way street whose orientation is biased to the consumer, not the brand."[31]

Consumers are empowered, and loyalty is fickle. At the end of the day, loyalty has to do with a brand's capability to meet consumer needs over time. Experiences that show consumers that brands can be loyal *to them,* rather than those solely focused on rewarding and incentivizing customers to make a sale, will shape customer decisions to create long-term, loyal brand advocates.

The key insight is that customers expect loyalty to be customer centric, and not simply brand centric. We will dig deep into this topic in Chapter 3, "The New Look of Loyalty," when we explore the subject of loyalty's new look, in significant detail.

Build Consumer Trust

While today's connected consumers demand an even more personalized experience, they're becoming more guarded when it comes to giving out their personal information—particularly as data privacy stories continue to make headlines. To retain consumer trust, brands need to be more transparent and prove they are using data to better serve consumers—not just with offers, but with engaging experiences. Ovum's Consumer Insights Survey of digital consumers around the world found that only 14% of respondents believe that Internet companies are honest about their use of consumers' personal data.

The implications of trust expectations on the brand's ability to market in today's connected environments are considerable. A.C. Nielsen's study on global trust in advertising and brand messaging found that consumers especially *trust* personal sources of information, but they especially *act* upon digital sources of information. In Figure 1.7, I have grouped A.C. Nielsen's information sources into three types: personal sources, traditional commercial sources, and digital commercial sources. In the first group are personal sources, *opinions of other people*, whether consumers know them or not. For example, 84% of consumers trust opinions from people they know, and they take action on those opinions

31. Jake Sorofman, "Most Marketers Have This Loyalty Thing All Wrong," Gartner for Marketing Leaders, November 5, 2014, http://blogs.gartner.com/jake-sorofman/marketers-loyalty-thing-wrong/.

To what extent do you take action, trust the following forms of advertising?				
	Information Source	Action	Trust	Difference Action vs. Trust
Personal Sources	Recommendations from people I know	84%	84%	---
	Consumer opinions posted on line	70%	68%	+2%
	Editorial content such as news articles	64%	67%	–3%
Traditional Commercial Sources	Ads on TV	68%	62%	+6%
	Ads in newspapers	65%	61%	+4%
	Ads in magazines	62%	60%	+2%
	Brand sponsorships	60%	61%	–1%
	TV program product placements	58%	55%	3%
	Billboards and outdoor advertising	57%	57%	---
	Ads on radio	55%	57%	–2%
	Ads before movies	53%	56%	–3%
Digital Commercial Sources	Branded websites	67%	69%	–2%
	Emails I signed up for	65%	56%	+9%
	Ads served in search engine results	57%	48%	+9%
	Ads on social networks	55%	48%	+7%
	Online video ads	52%	48%	+4%
	Online banner ads	50%	42%	+8%
	Display ads on mobile devices	49%	45%	+4%
	Text ads on mobile phones	45%	37%	+8%

Figure 1.7 Sources That Consumers Act Upon, Trust

Adapted from: *Global Trust in Advertising and Brand Messages,* September 2013, The Nielsen Company. Used with permission.

as well (also 84%); these personal sources are gold standard information sources, the highest ratings of all sources. But not far behind are consumer opinions posted online—often by from people they know, trusted by 68%, and they take action upon their advice, reported by 70%. These online consumer opinions are especially valuable to consumers because they are actionable opinions, useful and valuable in the moment when they are searched. Editorial content such as news articles is trusted by many (67%), but is not viewed as actionable by quite as many (64%). I use a difference score between the action versus trust indicators to quickly identify which information sources are viewed as being especially actionable relative to their trust level, and we can see here that editorial content such as news articles has an action versus trust difference score of –3%.

In the second group are ads from traditional commercial sources. These sources are generally less trusted than personal sources—ranging from 55% to 62%. With the exception of TV ads and newspaper ads, they are also viewed as less actionable—ranging from 53% to 62%. However, ads on TV and in newspapers are viewed as valuable and especially actionable sources in this group with action versus trust difference scores of +6% and +4% for TV and newspapers, respectively. For TV ads, consumers seem to be persuaded by the high-definition audio-visual impact and the "big-league" image associated with a brand that advertises on large-screen television. And because consumers are consuming information while reading newspapers they are especially receptive to newspaper advertising content located on the page nearby.

In the third group are digital commercial sources. These digital commercial sources appear to be generally less trustworthy as information sources. However, the notable exception is branded websites—trusted by 69% of consumers and taken action upon by 67%. These are remarkably high trust and actionable measures. In other words, consumers seem to be saying that they trust the information obtained from branded websites (69%) even more than they trust personal consumer opinions posted online from reviewers, bloggers, and raters (68%)—suggesting that they believe source brands know their products and services best of all. And they act upon branded website information content nearly as much (67%) as their trust measure (69%) would indicate.

Especially notable among digital commercial sources is the fact that consumers view these digital information sources as highly actionable sources—note the difference scores between action versus trust for nearly all these digital sources. For example, "Emails I signed up for" are viewed as being less trustworthy (56%), but nonetheless as quite actionable, offering information that I would take action on (65%)—for an action versus trust difference score of +9%. The same is true for search engine ads (+9%), social network ads (+7%), online banner ads (+8%), and even text ads on mobile phones (+8%). Though these digital sources may be seen as less trustworthy, they nonetheless bring with them the advantages of digital marketing—they are personally relevant and timely reflecting my in-the-moment personal search activity, and conveniently engaging because with only a click or a tap I can instantly access what I need to quickly accomplish what I need—to get things done.

However, trust is more nuanced for different types of consumers. For example, research has shown that millennial consumers may have distinctly different feelings about trust in the digital economy. And the opinions of millennials are particularly valuable, first, because they represent the next wave of growing and spending consumers, and second, because they are a digitally native generation with confident and definite opinions about online marketing. *Forbes* magazine and Elite Daily, an online media site calling itself "The voice of Generation Y," teamed up to research trust and loyalty attitudes among millennials.

"Our findings confirmed that millennials are highly educated, career-driven, politically progressive and—despite popular belief—do indeed develop strong brand loyalty when presented with quality products and actively engaged by brands," says David Arabov, CEO Co-founder Elite Daily.[32] Regarding some of the more common traits of the millennial generation, here are several key findings, quoted from *Forbes*:

- **Seldom influenced at all by advertising.** Only 1% of millennials surveyed said that a compelling advertisement would make them trust a brand more. Millennials believe that advertising is all spin and not authentic. Many will pay good money to avoid it, for example subscribing to services such as [Netflix] and Spotify, rather than being subject to TV and Radio ads.
- **Often review blogs before making a purchase.** Thirty-three percent of millennials rely mostly on blogs before they make a purchase, compared to fewer than 3% for TV news, magazines, and books. Older generations rely more on traditional media, whereas millennials look to social media for an authentic look at what's going on in the world, especially content written by their peers whom they trust.
- **Value authenticity more than just content.** Forty-three percent of millennials rank authenticity over content when consuming news. They first have to trust a company or news site before they even bother reading the content that they produce. Blogs are meant to be authentic and many of them are run by a single individual. Millennials connect with people over logos.
- **Open to engaging with brands on social networks.** Sixty-two percent of millennials say that if a brand engages with them on social networks, they are more likely to become a loyal customer. They expect brands to not only be on social networks, but to engage them at the right moments. Of course, the two challenges here for brands: (A) how to *scale* with the demand, and (B) how to know *when* these right moments are (and are not).
- **Interested in to co-creating products with companies.** Forty-two percent said they are interested in helping companies

32. Dan Schawbel, "10 New Findings About the Millennial Consumer," *Forbes*, January 20, 2015, http://www.forbes.com/sites/danschawbel/2015/01/20/10-new-findings-about-the-millennial-consumer/.

develop future products and services. In our society, companies usually create products and hope that their target market will consume them. When it comes to millennials, they want to be more involved with how products get created. Companies that enable them to be part of the product development process will be more successful. In particular, crowdsourcing platforms have become hugely popular for consumer testing and feedback as well as fundraising (for example, Kickstarter).

- **Using multiple tech devices.** As no surprise, 87% of millennials use between two and three tech devices at least once on a daily basis. Thirty-nine percent are either very or completely likely to purchase a tablet computer in the next five years, while 30% are for wearable devices. When there's new technology available, you can bet that millennials will be all over it! In order to keep your brand relevant, and appealing to millennials, you need be able to engage on new platforms as they are released. For instance, for some brands, having a native application for Apple's Apple Watch can be a good long-term investment (while others, not).

Conclusion

Consumers are taking control of their own marketing destinies, creating their own experiences. They are becoming their own brand managers and changing the way marketers go about marketing. They wield considerable and increasing power in an economy that naturally empowers them in natively digital ways that are becoming ubiquitous. We see evidence of this in the response rates, the opt-out rates, and the unsubscribe rates of email and other marketing campaigns.

I discuss opt-out in detail in the next chapter. Is opt-out an inevitable outcome of the transition of the global economy from a traditional one to a digital one—with consumers who are alienated by rapid technological change? Quite the contrary: it is consumers who are rapidly embracing the benefits of the digital economy; it is changing their expectations for brand and customer relationships.

At the same time, however, the promotional activities of marketers are accelerating this tectonic shift that is empowering customers to seize control of their chosen brand relationships, to opt out of those relationships that don't adapt to the new customer-driven market reality. Many marketers have misinterpreted the meaning of the digital economy—they see it as a more efficient economy, a cost-saving economy for businesses, with digital marketing as a low-cost driver that enables economical delivery of relentless marketing messaging. But this is mistaken. To succeed in the new era of consumer-empowered marketing, brands must learn from the mistakes of the past, to ensure they don't repeat them in the new channels and new media of the digital economy.

As marketers, we need to upend our thinking about "managing customers." We need to give customers control, with digital tools and assets to manage their own empowered relationships. If you don't provide customers with relationship control, customers will seize it anyway—and opt out from your brand. Wharton School marketing professor Jerry Wind was one of the very first to argue that marketers must change their focus from CRM—customer relationship management, to CMR—customer-managed relationships, and his prescient prediction is now rapidly coming to fruition:

Box 1.4: The Historic Shift to Empowered Consumers and CMR

This [changing] world has led to a new breed of consumers. They expect customization (make it mine), communities (let me be a part of it), multiple channels (let me call, click or visit), competitive value (give me more for my money) and choice (give me search and decision tools). The era of the passive consumer is history. Empowered consumers are increasingly in control, which dramatically changes the role of marketing. This shift in relationship between consumers and companies is the most fundamental change in the history of marketing, even more dramatic than the historic shift from a product orientation to a market orientation . . .

In addition to companies managing their relationships with customers, we need to create platforms that allow customers to manage their relationships with companies. In other words, we need to forge "customer managed relationships."

Source: Yoram (Jerry) Wind, Summer 2008, "A Plan to Invent the Marketing We Need Today," *MIT Sloan Management Review,* Vol. 49, No. 4, p. 21.

2

The Opt-Out Effect

In this chapter I focus on brand marketers and how they are responding in the age of the customer. My research shows that a large number of marketers remain motivated by a remarkably seductive and broad-based but mistaken perception that digital marketing is essentially free—just as they have done for so many years with their email practices. On the surface this makes perfect sense when you consider the marginal cost to a marketer of sending another email or presenting another pop-up ad to a customer—virtually zero. It is this engrained perception that permeates much of marketing, that as long as it's cheap enough, more *must* be better.

Consequently, marketers blast away at buyers with indiscriminate marketing programs—high-frequency email and seemingly innocuous banner and pop-up ad campaigns. Shawn Graham at Fast Company captured the consumer view of this:

> *As a consumer, it's already annoying enough to "x" out of pop-up ads on mobile sites that hijack my display for five or so seconds without having my smartphone targeted by opportunistic retailers . . . [If] you saturate and over-stimulate customers with messaging, they are going to reach a point where it all becomes white noise. It happened to direct mail (now referred to universally as "junk mail"), it's happening to social media, and if history repeats itself, it will soon happen with invasive marketing.*[1]

1. Shawn Graham, "Why Invasive Marketing Will Come Back to Bite You," Fasat Company, February 20, 2013, http://www.fastcompany.com/3006014/why-invasive-marketing-will-come-back-bite-you.

> "More than three-quarters (76%) of companies stated that they are doing basic segmentation, while an additional 15% are planning to implement this in the future."

Figure 2.1 Basic Email Dominates

Email industry leaders Econsultancy and Adestra found in their latest Email Marketing Industry Census that 76% of companies reported they rely essentially on the most basic form of email marketing—basic segmentation. Another 15% said they were planning on adopting this basic method. In the past 6 years "million per month" email marketers (those sending more than 1 million emails per month) has increased from 15% of email marketers in 2010 to 22% in 2015, whereas those sending less than 100,000 per month has declined from 62% in 2010 to 53% in 2015.[2]

The logic for this widespread practice is simple but provocative, as captured in a recent blog post:

> *Your open rates may drop and your CTRs [click-through-rates] may drop, but thanks to the power of inbox branding, you'll sell more. That doesn't mean you don't do segmentation and targeting. What it means is that you should be using segmenting and targeting to make customers tolerate more email. People don't and won't love your email marketing any more than people love ads on TV. People don't love advertising, people tolerate it. Branding is about influencing behaviour and getting people to buy the products you want them to buy, when you want them to buy.*[3]

This kind of thinking suggests a huge disconnect with customer empowerment and engagement that is sweeping through customer relationships in the digital economy. Instead these old-style marketers remain stubbornly anchored in vestiges of traditional marketing.

Above all, they are anchored to a short-term cost-driven—and remarkably unimaginative—mentality, that low-cost emails, banners, and pop-ups are the most efficient way to drive business return on investment (ROI). For

2. "Email Marketing Industry Census 2015 in association with Adestra," Econsultancy.com, 32, 43.
3. Jim Ducharme, "Dela Quist: Unlocking the Branding Power of Email Marketing," iScoop, www.i-scoop.eu/dela-quist-unlocking-branding-power-email-marketing/.

example, Econsultancy/Adestra research said that companies, on average, generate 20% of their sales from the email channel, but only spend on average 13% of their marketing budgets on email.[4] Sixty-eight percent of marketers believe email is effective for generating ROI, second only to search engine optimization (SEO) (organic search), at 73%.

However, *cost-driven marketing*—that is, choosing marketing strategies merely because they are the lowest-cost highest ROI methods to reach your customer—rarely leads to sustainable customer loyalty. In the digital economy, cost-driven efficiency is *given.* This short-term mentality ignores the long-term and rapidly evolving impact of digital on customer empowerment—of engaging, empowering, and enabling customers to do more with a full-spectrum of digital assets.

The BC Customer Empowerment Research Study found further evidence of this mindless marketing mentality. For example, 29% of marketers send emails with very high frequency—daily or every 3 days—to their *most valuable existing customers,* and another 34% send weekly emails to their most valuable customers. Marketers are misguided about the intensity and frequency of the messaging they send, and customers agree. In our BC study, when we asked if their most valuable customers "receive too many" emails, only 21% of marketers agreed; or "receive too many pop-up/banner ads," 21% agreed; or "receive too many pieces of direct mail," 17% agreed. By contrast, 44% of consumers said they "receive too many emails"—a differential versus marketers of 23 points; and 57% said they "receive too many pop-up/banner ads"—a differential versus marketers of 36 points; and 30% said they receive too many pieces of direct mail—a differential versus marketers of 13% (see Figure 2.2).

An obvious consequence of this perceptual gap regarding message frequency is that consumers choose to opt-out of direct brand messaging, and here again we see the mirror image of the same perceptual gap—this time in terms of drivers of opt-out: Consumers say that the number one reason they opt-out is because of too many messages from the company (38% average rating), followed by "I did not request or sign up" for the messages (24% average rating). But marketers don't quite see it that way; they rank all five possible reasons as being essentially the same in importance (see Figure 2.3).

4. "Email Marketing Industry Census 2015 in association with Adestra," Econsultancy.com, 33, 37.

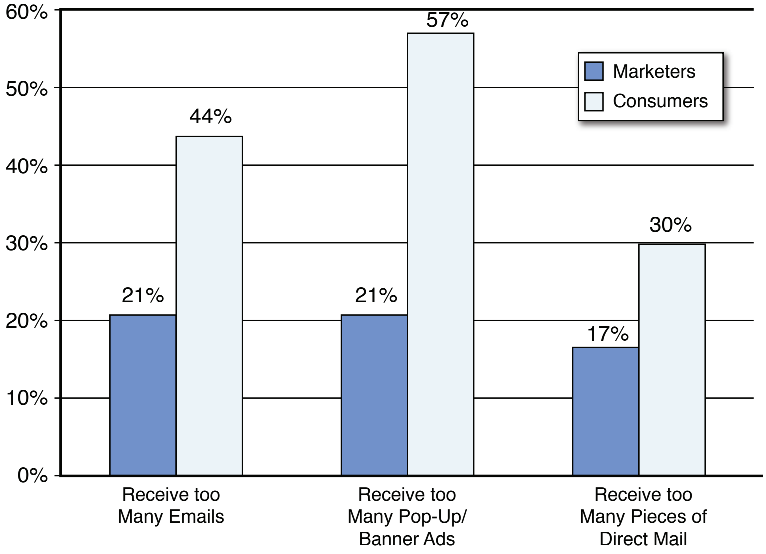

Figure 2.2 Do Consumers Receive Too Many Messages? Marketers Versus Consumers Say . . .

Source: Boston College Customer Empowerment Research Study, 2015.

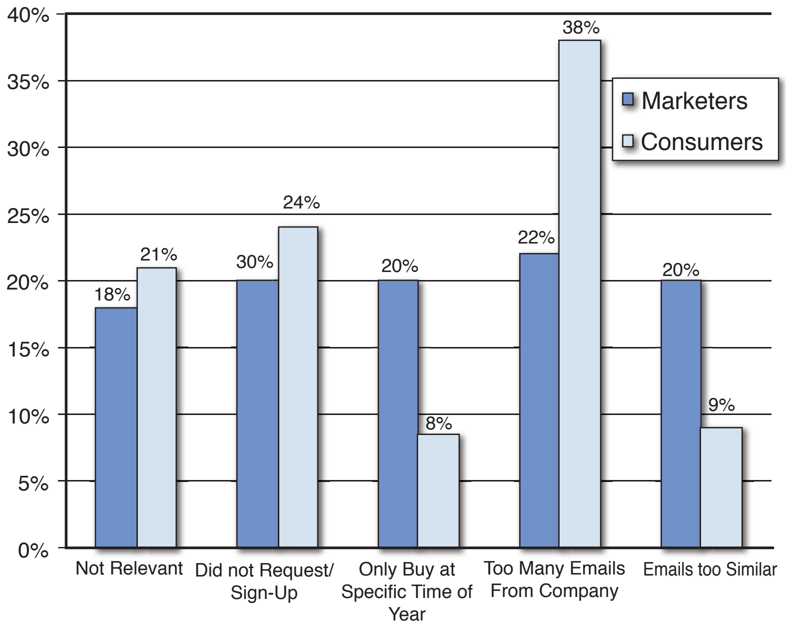

Figure 2.3 Reasons for Opting Out

Source: Boston College Customer Empowerment Research Study, 2015.

Marketers: Advocates or Adversaries

In the BC Customer Empowerment Research study, we asked *consumers:* Do you view marketers as being *advocates*, providing you (the customer) with useful communications and looking out for you and your best interests? Or do you view marketers as *adversaries*, just trying to sell you something you may/may not need? We applied the same line of inquiry to the *marketers* in the parallel study. The responses were remarkably divergent. Marketers saw themselves as helpful *advocates* in the customer relationship, 64% saying that their messaging objectives were to "match products and services specifically to each individual customer's needs," versus "sell as much product or service as possible" (36%). But the majority of consumers didn't see it that way. Consumers were much more likely to say marketers were "just trying to sell you something you may or may not need (an adversary) [63%] versus looking out for you and your best interests (an advocate) [37%]."

These research findings point to a critical insight in the new customer-driven world of customer-empowered relationships. The marketer's costs of digital marketing may be low cost, or even virtually free when viewed on an incremental basis—but they are a mistaken tactical priority. What matters instead is the customer's perceived cost of being in a relationship with the brand, the benefits the customer gets from the relationship—and ultimately the *value* of the brand relationship to the customer. Then, with a proper strategic focus on the brand's value to the customer, we can turn our focus 180 degrees to also focus on the value of customers to the brand—that is, the customer lifetime value (CLV) of these customers to the brand and how to grow these valuable customer relationships over time? These are the strategic issues that marketers must focus on.

Yet with the rapid emergence of digital marketing, marketers are surely confused about these tactical versus strategic issues with considerable flux about how to measure digital marketing performance. According to the Fournaise Management Group, experts in marketing performance measurement, "67% of Marketers don't believe Marketing ROI requires a financial outcome . . . 64% of Marketers use Brand Awareness as their Top Marketing ROI KPI, 58% place 'Likes', 'Tweets', 'Clicks', and 'CTR' in their top 5 Marketing ROI KPIs, and 31% still believe simply measuring the audience they have reached is

Marketing ROI."[5] HubSpot's research on inbound marketing showed that in 2014, 53% of companies doing inbound marketing reported that they measure ROI, up from 50% in 2013.[6] Still, "proving the ROI of our marketing activities" was cited most (29%) by respondents as a challenge (up from 25% in 2013), nearly double the priority of other challenges such as "securing enough budget" (16%), "managing my website" (14%), and "hiring top talent" (7%).[7] "Smaller companies tend to prioritize lead [generation], whereas larger companies prioritize ROI."[8]

Outbound to Inbound Marketing

Relying solely upon "outbound" one-to-one marketing tactics is an increasingly outdated mindset. Most marketers have turned to various forms of inbound marketing techniques to revitalize their marketing effectiveness—using online content creation (like blogs, social media sharing, search engine keywords, attractive pages), personalization, and multichannel interaction. These inbound marketing strategies are all central tools to the new customer-centric model of building and nurturing customer-empowered relationships. Inbound marketing techniques usually yield greater response rates versus outbound "push" marketing. The reason is that inbound messaging and offers are presented at a moment that is initiated not by the marketer, but by customers themselves based on their inbound activities—whether via social media, website, email, or mobile.

The touchpoints associated with inbound marketing may be digital or mobile channels such as search, social sharing via Facebook and Twitter, and banner and site click-through, but also on-site kiosk or ATM marketing that consumers are drawn to—plus more traditional nondigital channels such a retail store or a call center. Instead of relying on pushing

5. "90% of Marketers Are Not Trained in Marketing Performance & Marketing ROI," FournaiseTrack—Media Releases, London, April 8, 2014, www.fournaisegroup.com/marketers-not-trained-in-marketing-performance-and-roi/.

6. *State of Inbound 2014,* HubSpot, http://cdn2.hubspot.net/hub/53/file-1589882006-pdf/HubSpot-State-of-Inbound-2014.pdf, 48.

7. *State of Inbound 2014,* HubSpot, http://cdn2.hubspot.net/hub/53/file-1589882006-pdf/HubSpot-State-of-Inbound-2014.pdf, 31.

8. *State of Inbound 2014,* HubSpot, http://cdn2.hubspot.net/hub/53/file-1589882006-pdf/HubSpot-State-of-Inbound-2014.pdf, 32.

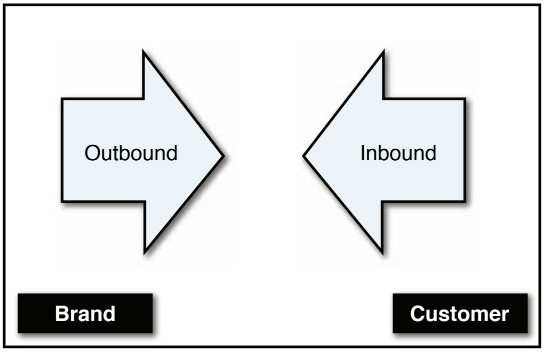

Figure 2.4 Inbound Versus Outbound Marketing

messages to customers to get them to come to you—that is, outbound, marketers take full advantage of every opportunity when customers come to them—that is, inbound (see Figure 2.4).

An advantage to inbound marketing is its lower cost. Traditional outbound marketing methods such as trade shows, direct mail, and telemarketing usually cost more on average than inbound marketing methods such as organic search or SEO, social media, and blogs.

Banner advertising, pay-per-click or paid search, and organic SEO strategies place messages in front of customers—at the moment the customer is highly engaged in solution-driven, purchase-driven search—with the very specific goal of directing buyers toward your own digital online properties. According to HubSpot research, the four most important inbound channels companies lean on for lead generation are social media, SEO, email, and blogs (see Figure 2.5).

For perspective, Figure 2.6 shows a more comprehensive view of inbound marketing projects, from HubSpot, for both B2B and B2C. The top three inbound marketing projects—blog content creation, growing SEO and organic presence, and content distribution and amplification (pushing out content to portals, news sites, blog sites, and partner sites)—also correspond to the high-performer companies. In other words, these three popular inbound projects are also the most effective and most profitable.

However, savvy brand marketers view inbound marketing in more powerful ways. Inbound marketing efforts are more than merely ways to get

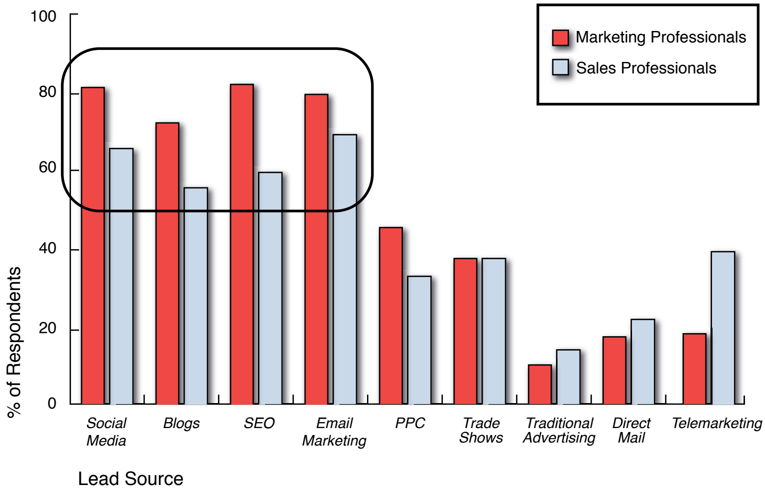

Figure 2.5 Which Lead Sources Have Become More Important over Last 6 Months

Source: State of Inbound: 2014, HubSpot. Used with permission.

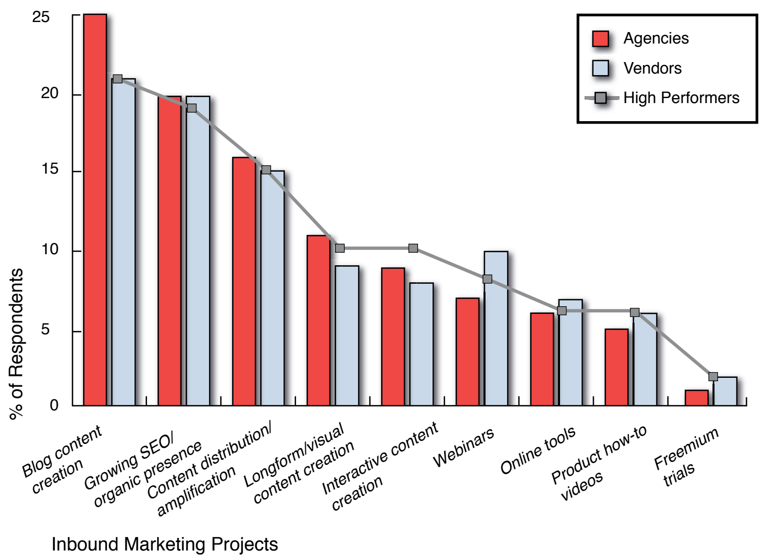

Figure 2.6 Top Inbound Marketing Projects

Adapted from: State of Inbound: 2014, HubSpot. Used with permission.

visitors to the brand's website and mobile apps. Instead, smart brands are optimizing inbound marketing strategies and equipping their inbound touchpoints with analytics to determine which offer or message is appropriate for that moment.

For example, some brands have discovered that while their traditional outbound marketing efforts are delivering declining results, the results from their inbound marketing are doing just the opposite—climbing, even to the point where they are making more money from inbound marketing than from outbound. In a well-publicized example, one early adopter of inbound, Bank of America's Merrill Lynch, won the coveted Gartner & 1to1 Media CRM Excellence Enterprise Gold Award for the striking results they achieved by deploying inbound next-best-action capabilities across all of their inbound touchpoints including website, interactive voice response, and call center. *Wall Street & Technology* ran a featured article titled "Building Relationships" highlighting the success of Merrill Lynch's inbound strategy. Regarding its results, Alok Prasad, head of Merrill Edge, said: "The number of new accounts is up by 26 percent, and customer attrition is down 20 percent. Plus, average account balances have increased more than 35 percent, and customer satisfaction is up by 55 percent."[9]

Now, inbound approaches have moved beyond the experimental phase and new cloud-based offerings are emerging, which promise to enable organizations of much smaller size to be able to enjoy and reap similar benefits. In the age of customer empowerment and opt-out, clearly organizations of any size can no longer afford to ignore customer analytics and the inbound marketing opportunity.

The New Strategic Marketing Era: Boundless Marketing

We are seeing the field of marketing and brand management in transition between three broad marketing paradigms. As discussed earlier, the first is the old traditional outbound marketing paradigm, driven

9. Anne Rawland Gabriel, "Building Relationships," *Wall Street & Technology*, December 2010, www.pitneybowes.com/content/dam/pitneybowes/us/en/legacy/assets/us/docs/Wall-Street-Technology-Merrill-Lynch.pdf

by steady (consumers say relentless) messaging and delivery—via traditional mass market channels such as television, radio, or run-of-site banner advertising, or personal channels such as email, texting, or in-app advertising and messaging based on our digital activity. Empowered consumers are pushing back on outbound marketing effectiveness, questioning the underlying assumptions of this paradigm.

The second is the inbound marketing paradigm, driven by the creation of engaging touchpoints for consumers to connect with the brand in more and more meaningful ways—via blogs, social media, SEO, freemium trials, product videos, webinars, and so forth. The key with these methods is to be ready to engage customers when they choose to engage with the brand.

However, we are already in transition to a third paradigm that is enveloping the field of brand marketing—*boundless marketing,* in which consumers are now operating in an open source marketing environment with many more brands and product formats—for example, from mainstream brands such as Canon, Fujitsu, or HP that offer physical scanners, to tiny digital brands such as TurboScan, an app for document scanning using a smartphone. Also many more channels—SEO, chat, kiosk, ATM, retail storefront, YouTube, and so on. And omni-directional messaging from sources—social media sources such as Facebook, Twitter, Tumblr, Snapchat, Instagram, Vine, and WhatsApp; personal sources via email, text messaging; as well as various brand marketing sources via inbound strategies—blogs, webinars, online tools, and assistive aids (such as handy calculators or checklists).

In the new marketing paradigm, your brand represents just one alternative among known, unknown, and obscure competitive alternatives and unlimited information sources—social media, public media, personal friends, and other brand messaging. To be effective in this new marketing paradigm, brands must obtain a new core competency around digital interaction and customer engagement. Smart brands will be less vulnerable to customers opting out because they are more oriented toward helping customers find useful, satisfying, and delightful customer solutions, instead of being oriented toward always selling customers on the brand's products and services. This new definition means we begin brand marketing with an entirely different frame of reference: *customer-centric brand experiences*—driven by customer listening, sensing, and customer community building and nurturing capabilities that are grounded in intelligent customer analytics (see Figure 2.7).

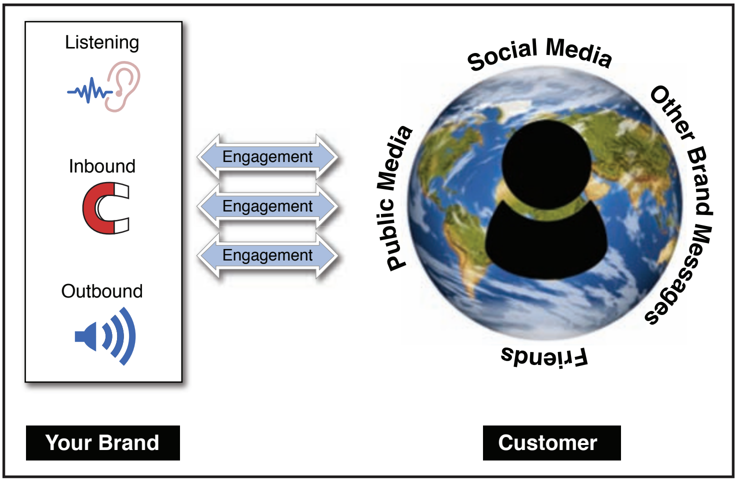

Figure 2.7 Boundless Marketing

A well-known example of this type of listening paradigm was the "Oreo Cookie Lights-Out" Superbowl Tweet. During the 2013 Superbowl in New Orleans between the Baltimore Ravens and the San Francisco 49ers, a power outage occurred in the middle of the game and the whole stadium—and broadcast—went dark. But that's when the brand marketers at Nabisco engaged the customer. The brand tweeted out an image of an Oreo cookie in a dark room along with the caption "Power out? No problem. You can still dunk in the dark." Of course a lot of preparation went into this "impromptu" tweet and it would be retweeted more than 10,000 times in just one hour and became one of the most famous marketing tweets.

Boundless marketing frames your brand's marketing as one piece of a customer-centric world in which consumers are surrounded by, immersed in, and engaged with interactive messaging from a variety of sources—social media, friends, public media (like news, magazine, and television/radio sources), and constant messaging from other brands (see Figure 2.7). What is essential in boundless marketing is to understand what consumers are *doing*—golfing, shopping, searching, browsing, collecting, solving, and so on. The Oreo brand team knew what their customers were doing at the moment the lights went out at the Super Bowl—they were engaged socially and personally watching and cheering during a riveting football game in which Joe Flacco and the Baltimore Ravens survived a frenzied comeback by the San Francisco 49ers for a thrilling 34-31 win.[10] All the while, in boundless marketing savvy marketers are listening and sensing, aided by analytics, surrounding consumers with intuitive and appealing inbound touchpoints, and using outbound strategically to deliver messaging with meaning in the moment. The key marketing objectives in boundless marketing are centered in customer engagement with the brand. For Oreo, an outbound tweet delivered precisely in the moment of Super Bowl darkness engaged customers in novel, surprising, and delightful ways and they signaled their delight with their own messages and retweets to their friends and family about the Super Bowl moment that went from a dark moment to an Oreo moment.

Trending Toward Customer Opt-Out

For most consumers the cost of online content is free. After all, people use email, maps, search, and social media all the time at no charge. However, the true costs that customers pay for online content and services—information, data, apps, games, entertainment—are very real. For some heavy-use customers (such as many business users of the *Wall Street Journal*'s WSJ.com or LinkedIn), the costs are hard monetary costs—subscription or usage fees of tens or hundreds of dollars annually—WSJ.com costs $299 annually for its online edition, for LinkedIn for a serious job seeker $29.99 monthly or about $360 annually, or for a business professional $59.99 monthly or $720 annually.

However, for the majority of casual users at most sites the costs of online branded content are instead soft nonmonetary costs—banner ads, pop-ups, email clutter, loss of privacy, sharing and reselling confidential user data for remarketing, and the risk of identity theft and fraud. These soft costs of using digital brands are actually *the price* customers pay for their digital usage. And the evidence we're seeing early in the digital economy is that as customers become more aware—more knowledgeable—of the soft and hidden costs of digital access and online content, they are increasingly looking for ways to manage those costs. And, when necessary, they are backing out—*opting out*—of brand relationships.

In the digital economy the tools that customers look to for personal choice and control are consumer preferences and opt-out. The idea of

10. "Ravens overcome power outage, survive rally to win Super Bowl," ESPN, February 4, 2013, http://espn.go.com/nfl/recap?gameId=330203025.

opt-out and preference management is certainly well known among marketers, but few focus on it, and it appears that fewer still attempt to manage it well. Opt-out seems like a black hole in the management of the customer relationship—a point of no return. If you're a marketer seeking to forge customer relationships, the last thing you want to do is give your customers a way to opt-out of the relationship, right? Actually, wrong. To deprive this essential lever to customers is to deprive them of the personal choice they obviously need to manage the costs of the customer relationship they will have with your brand.

Most marketers meanwhile are focusing on short-term measures of campaign success, rather than long-term measures such as opt-out or unsubscribe. For example, in our BC Customer Empowerment Research Study marketers reported that the top indicators they use to measure digital marketing campaign effectiveness were response rates (64%), click-through rates (63%), and then trailing behind were sales/conversion rates (53%) and opt-out/unsubscribe rates (46%) (see Figure 2.8). In other words, the most important long-term measure of the actual *digital relationship with the brand*—the rate of opt-out or unsubscribe—is still used by fewer than half of marketing companies. In the digital economy where customers are more empowered than ever, our most useful long-term indicators of the digital brand relationship are ignored by the majority of marketers.

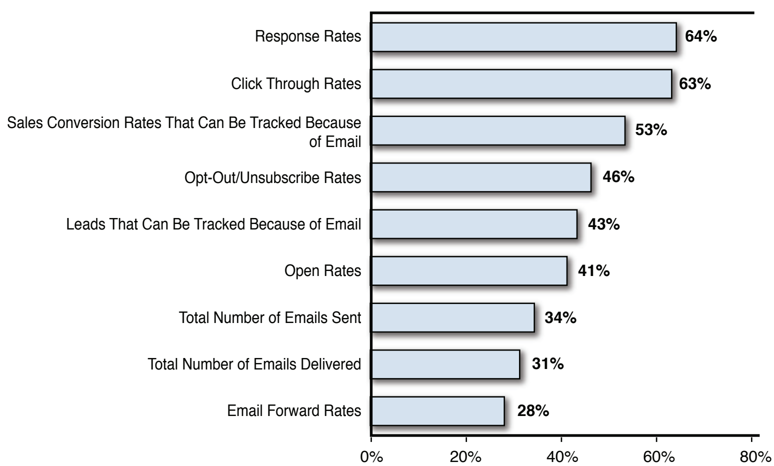

Figure 2.8 Success and Failure Measures

Source: Boston College Customer Empowerment Research Study, 2015.

The Opt-Out Effect

The *opt-out effect* means that consumers have turned the tables on marketers and are more empowered than ever before. Beyond just brand messaging, they are seeking brand interactions that add true value, and are moving away from interactions that don't add true value. Therefore, marketers must rethink their brand strategies and digital interactions that engage consumers on their terms, and not merely on marketers' terms.

These savvy customers are looking for and using online privacy management tools to create their own self-designed brand relationships, choosing which brands to identify with and what brand content to bring into their brand relationships. This creates a new form of customer loyalty—customer-driven brand loyalty that drives sales and profit growth, customer lifetime value, and ultimately customer brand equity.

Meanwhile, while marketers are sleeping at the switch, consumers are becoming increasingly assertive about opting-out and controlling the soft costs imposed by many digital brands. We see evidence of this from diverse sectors of the digital economy. For example, our BC Customer Empowerment Research Study found that 68% of consumers decided to not install a mobile app when they found out how much personal information they would need to share in order to use it (see Figure 2.9). Fifty-nine percent of consumers uninstalled an app because they found

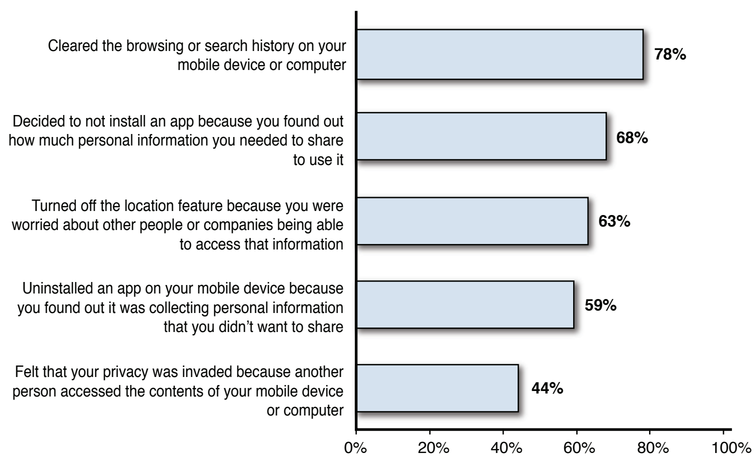

Figure 2.9 Have You Ever . . .

Source: Boston College Customer Empowerment Research Study, 2015.

out it was collecting personal information that they didn't want to share. Seventy-eight percent cleared the browsing history or search history on their mobile device or computer. And 63% said they had "Turned off the location tracking feature on your mobile device because you were worried about other people or companies being able to access that information."

In mid-2015, Apple dramatically shifted the power balance still further in favor of consumers. Apple enabled ad-blocking apps to work with its new mobile operating system, iOS 9, in response to consumer complaints about ad-driven personal online tracking, sluggish web browsing, and annoying clutter. Within 2 days of iOS9's release, three ad-blocking apps quickly ascended to the top of Apple's App Store ranking—Peace at #1 (then quickly withdrawn from the App Store by its creator, worried about its impact on some brands that rely on web advertising), replaced by Crystal at #1, and Purify at #4. For now, Apple-enabled ad-blocking works only on ads seen during mobile web browsing, not ads appearing within apps. However, the dramatic gesture to retract Peace from the Apple App Store because of its potential impact on small ad-dependent businesses shows unmistakably how digitally emboldened consumers threaten the very livelihood of brands that don't adapt to the new consumer-empowered reality of the digital economy.

A Pew study found that 60% of Facebook teenage users (aged 12–17 years) have their personal profile set to private, so that only their friends can see it. Forty percent of these teenage users said they were somewhat or very concerned that the information they share on social networking sites might be accessed by third parties such as advertisers or businesses without their knowledge.[11] There are other third-party apps to manage privacy, such as fPrivacy (formerly OOptOut) on the Chrome platform, which enables you to opt-out of your personal selection of Facebook app permissions, Ghostery to see and control who's tracking you when you visit a web page or to see how ads have been targeted to you, or TRUSTe's opt-out tool that enables consumers to prevent companies from showing targeted ads based on their opt-out settings.

Some companies attempt to assuage consumers about their concerns over personal data privacy by assuring them that their data will not be exploited or compromised. But for marketers the commercial revenue

11. *Teens, Social Media, and Privacy,* May 21, 2013, Pew Research Center, The Berkman Center for Internet & Society at Harvard University.

potential of enabling more targeted advertising is too alluring, so they always leave some ambiguity in their privacy policies. The U.S. Federal Trade Commission (FTC) investigated the privacy policies of 121 popular mobile shopping apps and concluded that:

> *[The] privacy policies that [FTC] staff reviewed contained broad and vague statements regarding how the services used [personal] data, making it difficult to assess how the data would actually be used. For example, some policies stated that they might use personal data to "enhance" or "improve" users' shopping experiences without further explaining those terms or providing examples that would help consumers understand the reasonable limits of such use or how uses might go beyond what consumers reasonably expect. Other policies described the apps' "primary purpose" for collecting data without describing or disclaiming any potential secondary purposes."*[12]

For example, the FTC found that 33%–38% of apps' privacy policies said that "We don't sell or share" personal data, but "almost all of the policies then used vague language that reserved broad rights to share consumers" data without restriction.[13]

The Cumulative Effect of Opt-Out

Some of the earliest thinking around the impact of opt-out is credited to consumer marketing thought leader Jeff Nicholson, then at Pitney Bowes Software, and presented at industry conferences.[14] Opt-out's effect is cumulative and the decision to opt-out affects all future interactions between the brand and customer—inevitably diminishing the profitability of the customer relationship. A brand's digital marketing campaign is literally part of a continuing conversation, or more precisely, ongoing moments of engagement between a brand and its customers. Thus the opt-out from one campaign directly influences the effectiveness of every other successive campaign. Consider for example,

12. "What's the Deal? An FTC Study on Mobile Shopping Apps," Federal Trade Commission Staff Report, Federal Trade Commission, August 2014, 21.

13. Ibid.

14. Jeff Nicholson, VP of Global Marketing, CAI, Pitney-Bowes Software, *New Best Practices for Opt-out Management: The New Best Practice Framework.*

if you have valid contact data (for example, email addresses) for 70% of your customers and 20% opt-out, then you have 56% available for your next campaign (70% – 20% × 70%). If another 20% opt-out then you have 44.8% remaining (56% – 20% × 56%). And if another 20% opt-out then you have 35.8% remaining (44.8% – 20% × 44.8%)—almost half the original valid email address file (see Figure 2.10).

How big is the future opt-out problem? Our BC Customer Empowerment Research Study found that almost nine in ten B2C businesses indicated that they had a valid email address for the majority of their customers—the average was 86%. However, nearly a quarter of these businesses (23%) had discovered that more than 40% of their email customers have opted out. Among industries, manufacturing has been the hardest hit with 40% of these companies reporting that more than 40% of their email customers have unsubscribed, followed by hospitality with 33%, insurance with 31%, credit cards with 31%, retail with 23%, and travel and leisure with 22% (see Figure 2.11).

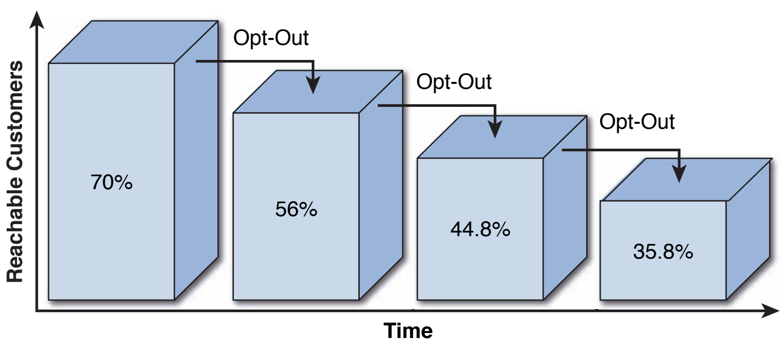

Figure 2.10 Cumulative Impact of Opt-Out

Percent of unsubscribes among valid email addresses	B2C Average	Mfg	Hospitality	Insurance	Credit Cards	Retail	Travel and Leisure
Greater than 40%	23%	41%	33%	31%	31%	23%	22%

*Additional categories: Financial Services 19%, Telecommunications 9%, Other 6%, and Automotive 0%.

Figure 2.11 Level of Opt-Out

Source: Boston College Customer Empowerment Research Study, 2015.

In these examples, the opportunity for marketing to directly connect with the customer to positively influence their behavior is diminished significantly, and the ripple effect continues over time as other customers similarly opt-out. All of this has a direct impact on the business's bottom line—on this period's sales and profits, on future sales and profits as those customers drop out of contact, on the average lifetime value of the brand's customer base, and ultimately on its brand equity—the worth of the brand as a cash-generating asset. In Chapter 3, "The New Look of Loyalty," we look at ways to effectively manage the customer relationship to enhance and maximize the brand's worth as a market-based asset.

What is especially important to recognize is that as brand marketers in most, if not all cases, tactical marketing practices drive customers to choose to opt-out. The BC Customer Empowerment research concluded that the top three drivers of customers choosing to opt-out are: *Frequency*—too much digital messaging (38% of respondents); *Permission*—the customer did not request or sign up for digital messaging from the company (24%); and *Relevance*—the digital messaging is not relevant (21%) (see Figure 2.12). Over the years, this tendency by marketing and branding teams to consider digital messaging, especially email, to be somehow "free" has led to a cynical and assertive customer, annoyed with irrelevant messaging that they never gave brands permission to deliver—as we discussed earlier in this chapter.

Rank	Reason for Opting-Out	Customer Rating
1	Frequency (Too many emails from company)	38%
2	Permission (Did not request/sign up)	24%
3	Relevance (Not relevant to me)	21%
4	Differentiation (Emails too similar)	9%
5	Timeliness (Only buy at specific time of year)	8%

Figure 2.12 Reason For Opting Out

Source: Boston College Customer Empowerment Research Study, 2015.

Classes of Opt-Out

But there is more to understanding how we affect customer opt-out choices by examining what we mean by opt-out. That is, customers may either opt-out or be opted out of brand messaging for a variety of possible reasons. There are actually three classes of opt-out (Figure 2.13). These include:

Class 1. Explicit Opt-Out: Explicit opt-out is the formal process of unsubscribing from further communications with the business. Typically this involves one of two possible actions, providing the customer with a link within their communication to opt-out or unsubscribe via (a) email to a predefined email address or (b) a hyperlink to an opt-out URL hosted by the marketer or a third-party marketing service provider. This is the most common connotation when the terms unsubscribe or opt-out are raised. This is the opt-out "we can see," with nearly a quarter of B2C businesses (23%) now discovering that 40% or more of customers have formally unsubscribed.

Class 2. Silent Opt-Out: If brands look at their opt-out list and believe that's their only problem, they're mistaken. In fact, there are

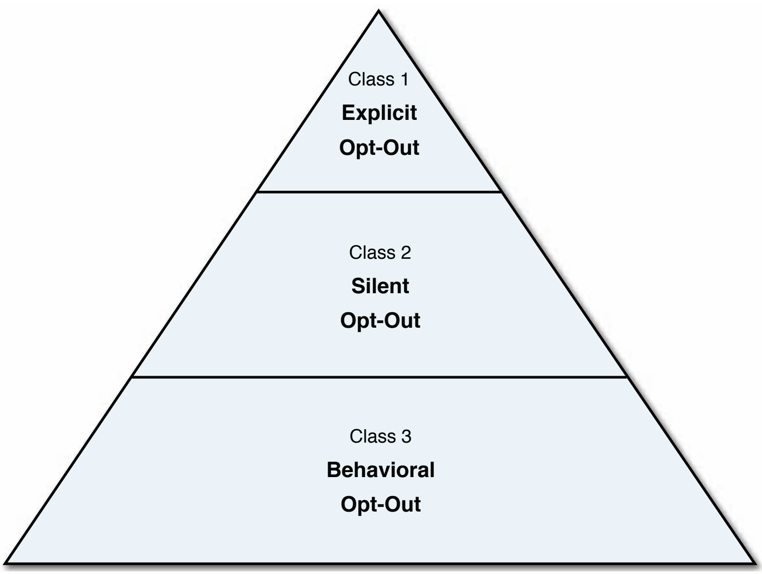

Figure 2.13 Three Classes of Opt-Out

other customers that are more likely to be simply "flagging" your messages as junk in their email client—and just not telling you. For example, some customers believe that by clicking your unsubscribe link they are only in effect telling the marketer (that is, adversary) that their email address is in fact valid, and therefore may only lead to yet more unwanted content. Our BC research indicates that for every two customers that formally unsubscribe with your company, there is at least one more customer that is acting on this hidden or "silent" opt-out—either flagging it as junk or reporting it as spam.

Class 3. Behavioral Opt-Out: Marketers will often look to lackluster "open" rates and wonder "why are these numbers so low?" The answer is an increasing trend toward "behavioral opt-out," likely the largest class of opt-out. Impacting even the most trusted brands, behavioral opt-out is an increasing issue that has a profound impact on the brand's profitability. Consumers often refrain from rushing to opt-out from brands they very much trust or where great satisfaction in prior purchases may have led them to believe that "somewhere, sometime" this brand will send them an offer they will love just as much. The problem is that marketers often overdo it by bombarding the customer with a "fire hose" of offers, often on topics of little interest—putting the brand relationship in jeopardy. Now, these consumers admit to habitually deleting these emails in mass or blocking messaging the minute they see who it's from. Marketers have created an environment where "behavioral delete" is expected, and now is a norm. As a result, customers no longer read brand messages, and with every irrelevant message received they move closer to opting out entirely.

The same is true for banner and pop-up advertising. Our BC Customer Empowerment Research Study found that consumers overwhelming and deliberately ignore advertising that appears adjacent to the content they are viewing—as if they were strategically trying to parry the intrusions of marketers. From our survey:

When visiting a web page and *banner ads* appear

- 58% say "I deliberately avoid looking at the advertising to just focus upon the content I need,"
- 33% say "I look at the interesting ads to see what they're about," and
- 10% say "I click on the interesting ads to learn more."

And when visiting a web page and *pop-up ads* appear

- 70% say "I deliberately avoid looking at the advertising to just focus upon the content I need,"
- 22% say "I look at the interesting ads to see what they're about," and
- 8% say "I click on the interesting ads to learn more."

So if your message is lucky enough to get past all of these barriers, it can finally be heard—and actually have a *chance* to influence customers' behavior. This of course is the ultimate goal of your revenue-related marketing activity. Consider a simple subjective exercise to assess the true impact of opt-out on your digital marketing campaigns, shown in Exercise 2.1.

Exercise 2.1: Subjective ROI Adjusted for True Opt-Out

Exercise

To bring home what *true opt-out,* after adjusting for the three classes of opt-out, might mean to you and your own organization, think of your last marketing campaign and the opt-out that resulted.

- What was your opt-out rate compared to your response and conversion rate?
- Estimate those that have flagged your email as junk (or blocked your messaging, for example, with pop-up ads) and have in essence opted out, but have not told you.
- Now consider the customer lifetime value of those that have opted out—lost customer lifetime value. Has your campaign made money, or has it lost money?

The Financial Impact of Opt-Out

So what is the financial impact of opt-out on your company? The most visible impact of course is the loss of immediate customer revenue and profits. However, impact doesn't stop there because this initial opt-out affects future lost profit contribution from this customer—the customer's lifetime value, that is, the stream of customer profitability over the life of the customer relationship. But impact depends too on *who* opts-out. Losing high-value customers—those customers who are most profitable—is of course more costly to your company. But losing opinion leader customers—who influence other valuable customers—is quite costly in other ways as these opinion leaders tweet, text, or blog their opinions to their many followers. If they opt-out, they consequently threaten the loss of even more of your customer base.

In the BC Customer Empowerment Research study, we found that customers who choose to opt-out often have strong opinions of your brand at the moment they choose to opt out. Of those consumers who opted out from receiving offers from a company, 41% said they would be *less likely* to do business with the company in the future. Findings from the Aberdeen Group, a technology-focused business research firm, support this research. They studied how firms use predictive analytics to segment, target, and optimize marketing, and found that high-performing "Leaders" experienced average opt-out rates of 2.6%, compared to "Followers," who experienced opt-out rates of 3.9%. As a consequence, Leaders realized a year-to-year change in CLV of 13.0%, compared to only 2.3% for Followers. In other words, achieving 33% less opt-out (2.6% versus 3.9%) was associated with Leaders achieving 465% greater incremental CLV.[15] This means that based on their data, for every 1% that opt-out was reduced, there was the potential for an incremental gain of 14% in CLV.

We use CLV because it computes at the individual customer level the net present value of the profit contribution generated by the customer over the life of the customer relationship—we discuss CLV in detail in Chapter 3. For many companies the customer's profit contribution will be smaller or even negative during the early periods of a customer relationship because of early promotional costs, lower average purchases as loyalty is still developing, and the original cost of acquiring the customer—through list acquisition, initial advertising campaign, or search and social media campaigns. As customers develop into increasingly profitable customers over time their CLV grows. However, if customers opt out of the brand relationship prematurely, the cumulative net profitability of the customer relationship—its CLV—will be diminished (or potentially

15. Trip Kucera and David White, "Divide & Conquer: Predictive Analytics to Segment, Target and Optimize Marketing," Aberdeen Group, February 2012, 1.

negative) because the customer never developed a mature and profitable customer relationship.

This diminished CLV representing the differential between no opt-out CLV and opt-out CLV is what I call *diminished Customer Lifetime Value* (CLVd), because at one point your brand retained a valuable relationship with the customer that was worth a lifetime of continuing customer cash flows. But now a differential portion of those cash flows is forgone due to opt-out. This doesn't mean that no future value is realized from opt-out customers, but rather only that the potential future value is diminished versus the alternative path of remaining opted-in. We will discuss diminished CLV in detail in Chapter 3 in our discussion of Customer-Driven Brand Loyalty, Customer-Driven CLV, and Customer Brand Equity.

Our customer empowerment research findings help shed light on a simple managerial estimation framework for calculating the potential impact of opt-out on your business bottom line. Although explicit opt-out is visible to your business and quite measurable, these other behaviors of silent opt-out and behavioral opt-out are more elusive to quantify.

Survey research on Explicit Opt-out, Silent Opt-out, and Behavioral Opt-out has been done over the past several years with different findings depending on how the survey questions are asked, which I discuss in detail below. All three measures are derived from surveys of consumers. As a simple illustration let's use the following opt-out rates—which are close to the rates observed in our empowered customer survey research:

1. Explicit Opt-out (30%)—Formally unsubscribe
2. Silent Opt-out (10%)—Flag as junk or spam, or block
3. Behavioral Opt-out (40%)—Delete or ignore

First, we anchor our estimates on the 30% observed Explicit Opt-outs that we can actually see. This means that, based on your survey research, for every *three observed Explicit Opt-outs* in a given digital marketing campaign, there will be approximately another *one Silent Opt-out* that blocked your message or flagged it as junk or spam (10% versus 30%, or a ratio of 0.33:1 Silent Opt-outs per Explicit Opt-out), and roughly another *4 Behavioral Opt-outs* that decide to mentally tune out

Class of Opt-Out	How to Calculate
Explicit Opt-out (Formally unsubscribe)	**# of Explicit Opt-Out x CLVd**
Silent Opt-out (Block or Flag as Junk/Spam)	**# of unsubscribes x 0.33 x CLVd**
Behavioral Opt-out (Delete or Ignore)	**# of unsubscribes x 1.33 x CLVd**

Figure 2.14 Estimating the Financial Impact of Opt-Out

(40% versus 30%, or a ratio of 1.33:1 Behavioral Opt-outs per Explicit Opt-out) (see Figure 2.14).[16]

An important research note here: Your results will be influenced by how you ask the opt-out question, in either of two ways. (1) You can ask survey respondents to check "*all* opt-out options" that they would do when encountering an annoying email or pop-up ad, that is, "check all the options you would do" (opt out/unsubscribe, report as spam, flag as junk, ignore the message, or delete or close the message). Or (2) you can ask survey respondents to check "*the* opt-out option" they would be most likely to do. The first way is inclusive and usually yields data with higher opt-out rates—experience suggests that they are about twice the opt-out rates derived from the second exclusive way. I recommend the second method (see Footnote 16).

16. For simplicity of presentation I use the simple opt-out rates shown in the text above: Explicit Opt-Out (30%), Silent Opt-Out (10%), and Behavioral Opt-Out (40%)—yielding ratios of 0.33:1 for Silent relative to Explicit Opt-Out; and 1.33:1 for Behavioral relative to Explicit Opt-Out. The BC Customer Empowerment Research Study found the following opt-out rates: Explicit Opt-Out (65%), Silent Opt-Out (37%), and Behavioral Opt-Out (92%)—yielding ratios of 0.57:1 for Silent relative to Explicit Opt-Out; and 1.42:1 for Behavioral relative to Explicit Opt-Out. These opt-out rates were likely high due to the way the opt-out question was asked—survey respondents were asked to check "all opt-out options" that applied (see my discussion of how you ask the opt-out question in the text above). Similar research from several years ago found the following: Explicit Opt-Out (31%), Silent Opt-Out (8%), and Behavioral Opt-Out (38%)—yielding ratios of 0.26:1 for Silent relative to Explicit Opt-Out; and 1.23:1 for Behavioral relative to Explicit Opt-Out. What matters is the ratio relationships between the three opt-out constructs, since we are attempting to estimate Silent and Behavioral opt-out by indexing on Explicit opt-out.

Note too that the opt-out rates derived from survey research like this are measured in terms of "intend-to-opt-out," which is different from actual opt-out that a brand may experience in practice. You will find that actual opt-out rates are usually lower—consumers' intentions don't always match their actual behaviors in many dimensions of marketing, and this is true for opt-out as well. Note, for example, that the Aberdeen findings cited earlier were actual opt-out rates. You may wonder why we bother to do survey research with "intend-to-opt-out" measures if they aren't equivalent to actual opt-out. Actual performance-tracking measures from marketing campaigns, such as observed opt-out, are always essential, but they do little to help us measure the underlying phenomena beneath explicit opt-out behavior—such as silent opt-out or behavioral opt-out. Survey research enables us to diagnose these hidden behaviors by indexing on measures of stated Explicit Opt-Out (from the survey), while also measuring Silent Opt-Out and Behavioral Opt-Out, and then quantifying the relative proportions of each relative to Explicit Opt-Out. For our method here, the actual level of opt-out derived from the survey research is less important than the relative proportional relationships between the three opt-out measures.

Considering the Financial Impact of Consumer Opt-Out on CLV

Using this estimation framework, you can now begin to estimate how much consumer opt-out may be costing your brand. This is done not just by looking at the cumulative amount of opt-out within your customer base, but by estimating the difference in customer profitability of a baseline scenario of the brand's current customers versus the opt-out scenario after some customers opt-out from the brand. We can then extend these calculations to further estimate the financial impact of Silent Opt-Out, and then Behavioral Opt-Out—which finally enables us to estimate the total cumulative effect of opt-out on the brand's profitability.

For example, to illustrate opt-out's financial impact let's do some quick back-of-the-envelope CLV calculations—using an infinite CLV methodology (discussed in Chapter 3). Consider this simple baseline scenario for a company that sells eco-friendly toys made from only all-natural products. A marketing campaign will be delivered to a list of 1 million consumers obtained from environmental publications and associations, with an expected response rate of 1%—those who click-through and register at the brand's site. Of these respondents 30% will go on to make a purchase. The expected long-term retention rate for these buyers is 80%. The average annual contribution (revenue – cost-of-goods-sold – marketing costs) realized from a customer is $100 annually. Now consider the alternative opt-out scenario where the opt-out rate is 30%—that is, 30% of customers who initially purchase end up unsubscribing, or opting out from the brand.

In Chapter 3 we discuss CLV calculations in detail where we will introduce the Retention Multiplier, calculated using the retention rate and a discount rate to adjust cash flows for the time value of money. Because 30% of customers opt-out the retention rate for these customers therefore diminishes to 50% (80%–30%); assume a discount rate of 10%. The CLV for the baseline scenario is $801,000 (1 million × 1% × 30% × $100 × 2.67 [the retention multiplier = 0.80/(1 + 0.10 – 0.80)]). The CLV for the alternative scenario is $249,000 (1 million × 1% × 30% × $100 × 0.83 [the retention multiplier = 0.50/(1 + 0.10 – 0.50)])), a difference of $552,000. In this alternative scenario, at $801,000 versus $249,000, the campaign lost more than two-thirds of the profit contribution it made in the baseline scenario due to opt-out. Add to this an additional $182,160 in silent opt-out that we can't see via consumers' native junk/spam filters ($552,000 × 0.33 silent opt-out relative to explicit opt-out), and more than $734,160 in behavioral opt-out ($552,000 × 1.33 behavioral opt-out relative to explicit opt-out). All totaled, the estimated lost profit contribution due to all three forms of opt-out is $1,468,320.

As you can see, opt-out is significant and brand marketers need to consider its effect seriously. Regardless of your assumptions it is essential to understand the total impact is has on your brand.

Regulatory Involvement and Opt-Out

We've already seen evidence that consumers are voting by opting out. But they are also increasingly getting support from government regulators. In June 2015, PayPal and eBay announced major changes to their privacy preferences giving themselves the right to contact registered customers by using autodialed or prerecorded calls or text messages to collect debts, or to suggest offers and promotions, or ask survey questions. The move instantly raised concerns under the U.S. Telephone Consumer Protection Act and the Fair Debt Collections Practices Act. Neither eBay nor PayPal gave the user the option to opt-out. Customers could either agree to the new policies or stop using the service completely.[17]

However, just weeks later one of the two, PayPal, apologized to its customers and amended its consent policy following sharply worded letters to the company by the New York Attorney General's Office and the Federal Communications Commission, which both questioned PayPal's telemarketing practices and demanded compliance with the Telephone Consumer Protection Act. PayPal's revised user agreement stipulates that [1] "PayPal will not use autodialed or prerecorded calls or texts to contact its customers for marketing purposes without prior express written consent; and [2] Customers can use PayPal's products and services without consenting to receive autodialed or prerecorded calls or texts, and may revoke such telemarketing consent."[18]

In 2014, the European Court of Justice (ECJ), the European Union's highest court, ruled in favor of one consumer—a Spaniard named Mario Costeja González, establishing precedence in the new legal area of a "digital right to be forgotten." Mario had asked Google to remove links to notices in a 1998 newspaper concerning the forced sale of his properties encumbered with social security debts. Google said no, but a Spanish court found in favor of Mario, and ultimately the ECJ upheld the Spanish court ruling: With regard to the rights of the consumer, "those rights override, as a rule, not only the economic interest of the operator of the search engine [for example, Google] but also the interest of the general public in finding that information upon a search relating to the data subject's name."[19]

Microsoft released its newest operating system Windows 10 with 14 million downloads in its first 24 hours of availability—a free upgrade. At the same time, however, Microsoft now will use the Windows 10

17. Greg Bensinger, "EBay, PayPal Face Criticism Over Robocall Policies," *Wall Street Journal*, June 10, 2015, www.wsj.com/articles/ebay-paypal-face-criticism-over-robocall-policies-1433983614.

18. Klein Moynihan Turco, "PayPal Overhauls Telemarketing Consent Language in User Agreement," Lexology, July 2, 2015, www.lexology.com/library/detail.aspx?g=dfc47fae-a9b3-494a-b07a-f5d60e5cc4eb.

19. Judgment of the Court (Grand Chamber), Court of Justice of the European Union, May 13, 2014, http://curia.europa.eu/juris/document/document_print.jsf?doclang=EN&text=&pageIndex=0&part=1&mode=DOC&docid=152065&occ=first&dir=&cid=667631. See also "Cut That Link," *The Economist*, May 17, 2014, www.economist.com/news/business/21602239-european-court-justice-forces-google-remove-links-some-personal-information-cut.

platform to gather all kinds of private information from consumers—basic information such as name, contact data, passwords, demographic, and credit card information. It also collects contents from private emails, websites visited (including features accessed and time spent), and apps downloaded, as well as the contents of private folders. It watches and collects Bing search queries, GPS tracking, and your typed and handwritten words—such as a keylogger. Its Privacy Policy and Service Agreement run 45 pages in length.[20] According to the company, "Microsoft uses the data we collect to provide you the services we offer, which includes using data to improve and personalize your experiences."[21] But the commercial rationale for Microsoft's new free software upgrade strategy is to "collect everything you do, say and write with and on your devices in order to sell more targeted advertising or to sell your data to third parties," said European Digital Rights, a Brussels-based privacy organization. Early on, consumers will likely go along with Microsoft's new free-software-for-personal data strategy because the value proposition is so compelling. But in the end they will turn to regulators to trim the costs of its privacy invasion.

This has been the case with Google, which has engaged in a similar strategy since 2012, gathering and linking personal user data across all of Google's product groups—email, web, YouTube, social, and search data streams. In response European Union regulators from 27 EU countries investigated Google's privacy policies and found that "Google provides insufficient information to its users on its personal data processing operations: Under the current Policy, a Google service's user is unable to determine which categories of personal data are processed for this service, and the exact purposes for which these data are processed." The regulators formally requested that Google "modify its practices when combining data across services for these purposes, including . . . [o]ffer an improved control over the combination of data by simplifying and

20. Lauren Walker, "Using Windows 10? Microsoft is Watching," *Newsweek,* August 1, 2015, www.newsweek.com/windows-10-recording-users-every-move-358952. Murad Ahmed, "Windows 10 Hit by Privacy Concerns," *Financial Times,* ft.com, August 3, 2015, www.ft.com/intl/cms/s/0/fdaddc18-39bc-11e5-bbd1-b37bc06f590c.html#axzz3iQE0bKjb.

21. "Microsoft Privacy Statement," Last Updated July 2015, www.microsoft.com/en-us/privacystatement/Default.aspx.

centralizing the right to object (opt-out) and by allowing users to choose for which service their data are combined."[22]

Meanwhile, the U.S. Federal Trade Commission has been concerned that natural search engine results have become increasingly commingled with paid search engine ads, making it ever more difficult for consumers to distinguish organic search from paid search listings. An SEO survey found that about half the time people didn't recognize when ads were present on search results pages. Citing its concern with a "decline in compliance" with its original search engine guidelines published in 2002, the FTC sent a formal letter in June 2013 to AOL, Ask, Bing, Blekko, Duck Duck Go, Google, and Yahoo as general-purpose search engines and 17 of the most heavily trafficked shopping, travel, and local search engines. The letter issued new guidance on visual cues and labels, and better background shading and borders for ads.[23]

As these examples illustrate, consumers are not only more aggressive, assertive, and empowered by technology, but are threatened by it as well and they have been effectively turning to governments to win protection—to create a *regulatory advantage* to restrict, control, and prohibit exploitation by marketers. In so doing they have enhanced the leverage they have in the digital economy—their *social networking advantage* to complain and broadcast unfavorable brand experiences. Yet even as consumers become more empowered marketers are also getting smarter. They are discovering exceptions to the rules and exploiting these exceptions as well. So who will win the debate over time? My bet, and the bet of the brand managers and executives we spoke with, is with consumers.

Over the past 40 years governments have pulled together a formidable and growing foundation of legislation and legal precedent to restrain and restrict marketers in the digital economy (see Table 2.1). For example, legislative precedent began as early as 1970 in the United States with the first Fair Credit Reporting Act, passed to regulate the collection, dissemination, and use of consumer credit information. Consumer reports, creditworthiness, credit history, credit capacity, character, and general

22. "Google's New Privacy Policy: Incomplete Information and Uncontrolled Combination of Data Across Services," CNiL, October 16, 2012.

23. "FTC Consumer Protection Staff Updates Agency's Guidance to Search Engine Industry on the Need to Distinguish Between Advertisements and Search Results," Federal Trade Commission, For Your Information, June 25, 2013.

reputation were required to be dealt with fairly and privately. In 1986, the Computer Fraud and Abuse Act was enacted, making it a federal crime to access protected computers without proper authorization. Protection expanded to all industries over time and in 1988 the Video Protection Act was enacted as a federal law preventing video rental retailers from selling or releasing information about the videos an individual has rented without that person's consent or a court order. By selling such consumer content marketers could thus allow premium advertising. Facebook, Blockbuster, and Netflix have all been named in lawsuits claiming unlawful release of customer records in violation of this act.

Table 2.1 Summary of Digital Marketing Regulation

Regulation Name	Geographies Affected	Scope	Active vs. Pending
Fair Credit Reporting Act	USA	Consumer Reporting Agencies use of credit information	Active (1970)
The Privacy Act	Canada	Government use of data	Active (1983)
Computer Fraud and Abuse Act	USA	Electronic communications and computer tampering	Active (1986)
The Video Privacy Protection Act of 1988	USA	It prevents disclosure of personally identifiable rental records of prerecorded video cassette tapes or similar audio visual materials	1988
Telephone Consumer Protection Act	USA	Automatic dialing systems, artificial or prerecorded voice messages, SMS text messages, and fax machines	Active (1991)
The Health Insurance Portability and Accountability Act	USA	Health-care providers, data processors, pharmacies, and other entities' use of medical data	Active (1996)
Children's Online Privacy Protection Act	USA	Online collection of information—websites	Active (1998)
The Financial Services Modernization Act	USA	Financial institutions such as banks, securities firms, and insurance companies' use of financial information	Active (1999)

Regulation Name	Geographies Affected	Scope	Active vs. Pending
The Personal Information Protection and Electronic Documents Act	Canada	Private sector organizations' use of data	Active (2000)
EU Data Protection Directive	EU	Treatment of traffic data, spam, and cookies	Active (2002)
The Federal Information Security Management Act	USA	FISMA assigns specific responsibilities to federal agencies, the National Institute of Standards and Technology, and the Office of Management and Budget to strengthen information security systems	Active (2002)
The Controlling the Assault of Non-Solicited Pornography and Marketing Act	USA	Email address and telephone numbers	Active (2003)
The Federal Trade Commission Act	USA	Offline and online privacy and data security policies	Active (2006)
EU Cookie Law	EU	Required to ask users if they agree to cookies and similar technologies (e.g., web beacons, Flash cookies, etc.) before the websites start to use them	Active (2011)
Do Not Call Implementation Act/Do Not Call Improvement Act	USA	Home and cell phones	Original (2003) Active (2012)
Personal Data Protection and Breach Accountability Act	USA	Ecommerce, online websites, credit reports, personal data, business information	Active (2014)
Data Broker Accountability and Transparency Act	USA	Data brokers	Active (2014)

(*Continued*)

Table 2.1 Continued

Regulation Name	Geographies Affected	Scope	Active vs. Pending
Canada's Antispam Legislation	Canada	All commercial electronic messages (messages to email accounts, phones, or social networks)	Active (2014)
The Right to be Forgotten	USA (California)	Internet website, online service, online application, or mobile application	Pending
The General Data Protection Requirement of 2012	EU	Controllers and processors who are outside the EU but whose data-processing activities relate to offering goods or services to, or monitoring subjects residing in the EU	Pending
EU Data Protection Act	EU	Deals with obligations of data controllers and processors, data security, data protection impact assessments and prior consultation, data protection officers, codes of conduct, and certification. Tackles right to be forgotten	Pending

Between 1990 and 2000, the Telephone Consumer Protection Act restricted telephone solicitations, telemarketing, and the use of automated telephone equipment. The act limited the use of automatic dialing systems, artificial or prerecorded voice messages, SMS text messages, and fax machines. In a significant court case concluded in August 2014, Capital One Financial Corporation entered into an agreement to pay $75.5 million to end a consolidated lawsuit pending for the District of Illinois, alleging that the company used an automated dialer to call customers' cellphones without consent—the largest proposed cash settlement under this act.

Regulations extended into the health-care sector with The Health Insurance Portability and Accountability Act of 1996, and The Financial Services Modernization Act of 1999. Both laws protected individuals from the leak of medical and financial data without prior consent. Rules also were created to protect children from marketers. The Children's Online Privacy and Protection Act restricted marketing to those under the age of 13 years, and protected children's privacy and safety online. Nonsolicited pornography and marketing were also prohibited. Unfair trade was restricted, and even telemarketing calls were limited. Individuals put their landline numbers on the Do Not Call Registry with the Telephone Implementation Act of 2003 to prohibit calls to consumers for up to a 5-year period. This regulation was later amended under the Telephone Do Not Call Act of 2012. Numbers were updated and removed from the list if they were no longer available. The Do Not Call Registry is now permanent. Yet marketers have discovered various exceptions to the rule, so individuals keep getting unsolicited calls from many other marketers and commercial agencies—the regulation has been weakened over time.

One of the last interesting laws enacted was the Personal Data Protection and Breach Accountability Act in 2014, which truly protects consumers from personally identifiable information theft through security breaches in the United States. This law also protects individuals from the unauthorized collection or use of personally identifiable information. The UK and the EU had similar regulations that were listed under the European Union Directive, and Canada did the same thing to protect its citizens.

But these regulatory efforts are harbingers of more turbulence ahead as digital marketers try to stay abreast of rapidly evolving digital brand relationships. The signs we are seeing are early indicators, but they suggest that in the digital economy of empowered customers marketers need to adopt a new paradigm for winning customer-driven brand loyalty. They need to infuse trust through (1) transparency of privacy policies; (2) transparency of data collection and data-sharing practices; (3) clear messaging, articulation of privacy policies, with options for opting in-out, and opting up-down to customize the kind of messaging they want to receive; (4) compliance with broadly accepted regulatory protocols, such as a Privacy Bill of Rights; and (5) trustworthy privacy controls for consumers, for example, through easier-to-use preference centers (see Figure 2.15).

Failure to follow these smart regulatory protocols will only provoke governments to press forward with online privacy investigations and motivate consumers to continue to adopt blunt-force opt-out and third-party

Proactive Regulatory Actions

- ✓ Transparency of privacy policies.
- ✓ Transparency of data collection and data sharing practices.
- ✓ Clear messaging, articulation of privacy policies.
- ✓ Compliance with broadly accepted regulatory protocols, e.g., Privacy Bill of Rights.
- ✓ Provide consumers with trustworthy privacy controls.

Figure 2.15 Proactive Regulatory Actions

data privacy tools (for example, Ghostery or TRUSTe). By failing to address these key issues, digital marketers put at risk the investments they've made in targeted advertising and data analytics. Ovum analyst Mark Little said:

> *Unfortunately, in the gold rush that is big data, taking the supply of "little data"—personal data—for granted seems to be an accident waiting to happen . . . Internet companies need a new set of messages to change consumers' attitudes. These messages must be based on positive direct relationships, engagement with consumers, and the provision of genuine and trustworthy privacy controls. Most importantly, data controllers need a better feel for the approaching disruption to their supply lines, and must invest in tools that help them understand the profile of today's negatively minded users—tomorrow's invisible consumers.*[24]

The key is getting ahead of the new wave of digitally empowered customers, helping customers manage their own destinies—rather than marketers trying to control or manage customer relationships.

24. Mark Sutton, "Privacy Concerns Threaten e-Economy, Says Ovum; Data Abuse Driving Consumers to Withhold Personal Data from Internet Companies," *ITP.net*, February 7, 2013.

Conclusion

There is a significant disconnect between marketers and customers. Marketers see themselves as being much more virtuous than customers see them. Yet many marketers continue to rely on old push-marketing methods, with an emphasis on high-frequency messaging strategies, even as customers increasingly opt-out of such annoying messaging.

Consistent with the newly empowered customer, the missing black hole in marketing is opt-out. Brand marketers haven't focused on opt-out, haven't known how to measure it, and haven't known how to define and conceptualize what it really means to their bottom line. I point to a new direction. If we don't learn from our mistakes, and from what consumers are telling us about our behavior, we are destined to repeat those mistakes forevermore, upon every other new channel that emerges going forward. We have to have a new mindset, new vision, and new role to help our brands rise to this challenge.

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3

The New Look of Loyalty

For decades marketers have focused on building strong brand relationships, marked by high customer satisfaction, repeat purchase, and favorable brand attitudes. "Over the course of the past decade, firms have come to the realization that one of the most effective tools they have to hedge against risk is the portfolio of relationships that consumers form with the company's brands," said marketing scholars Susan Fournier, Michael Breazeale, and Marc Fetscherin. "Strong relationships guarantee cash flows in the form of brand loyalties and trial of new brand extensions, create supply-side cost advantages through evangelism and word-of-mouth advocacy, and protect shareholder value in the wake of the crises that inevitably befall brands."[1]

Branding scholars are plumbing the depths of the customer–brand relationship, exploring types of brand relationships and studying analogues to interpersonal relationships (for example, abused, adversary, committed, communal, dependency, exchange, secret affair, and master–slave). They are examining childhood influences on brand relationships, emotionality and emotional engagement and investment, brand love and brand passion, and brands and consumer identity.[2]

These are fresh research directions that expand the horizons of what we know about brand relationships. However, the pivotal impact of digital innovation on consumers and brands threatens to disrupt the nature of

1. Susan Fournier, Michael Breazeale, and Marc Fetscherin, "Introduction: The Why, How, and So What of Consumers' Relationships with Their Brands," *Consumer Brand Relationships: Theory and Practice,* Susan Fournier, Michael Breazeale, and Marc Fetscherin, eds. (New York: Routledge, 2012), 1.

2. See *Consumer Brand Relationships: Theory and Practice.*

the relationship entirely, leading to a new paradigm: *digital customer relationships*. New digital competitors previously unknown to established brands can now interject themselves digitally into the customer decision journey and weaken the sinews that once held consumers and brands together. For example, think of how the online brand VRBO (Vacation Rental by Owner) carved out a significant niche digitally in the vacation rental category, undermining the position of large established corporate brands such as Marriott or Hilton. VRBO had no brand name presence but set up an attractive intuitive digital platform with a deceptively simple value proposition: offer a large inventory of vacation properties, accessed online from wherever you are, for a good price. When asked about digital competitors in banking, Jamie Moldafsky, CMO of Wells Fargo said:

> *We see [Google, Amazon and Apple] creating new and engaging ways—particularly in the payment space—to engage with customers. Millennials, for example, are not necessarily at a stage where they are engaging in highly complex financial matters. . . . They just need to pay their bills or get cash, and that's where the Googles and Apples are already starting to provide alternatives. The same is true with Amazon, which can provide financing to small merchants, for example.*[3]

The Emerging Digital Dimension of the Customer–Brand Relationship

Forrester Research analyst James McQuivey said:

> *The very idea of brand relationship is going to become irrelevant thanks to digital disruption. If you continue to focus on building a wonderful brand relationship with your customer, you will one day awake to find that someone else has taken your place in your customer's life—not with a more compelling brand relationship, but with a more compelling digital customer relationship.*[4]

3. Jamie Moldafsky, "Wells Fargo Values," *Hub Magazine* (September/October 2015), 27.
4. James McQuivey, "Brand Relationship Is Dead—Long Live The Digital Customer Relationship," Forrester CMOs Blog (January 22, 2014), http://blogs.forrester.com/category/digital_customer_relationship. Emphasis mine.

Brand relationships will always remain essential, but in the digital economy these relationships are being forever changed—because of the at-once emergence of the digital customer relationship. This is important: If the rest of the brand relationship with your customer exists separately and independently from that which is digitally influencing the customer, then the strength of your brand relationship is at risk. Why? Because of the emergence of pure digital brands who thrive on the digital customer relationship—like Warby Parker selling eyeglasses online for $95 whereas their traditional competitors (for example, Oakley, Prada, Michael Kors) sell for hundreds of dollars; or diapers.com that delivers "everything but the baby" to your home for discount prices while undermining traditional grocer or mass market retailers.

The key to this transformation is the embracing of digital and mobile tools, technologies, apps, and media as consumers increasingly use them in virtually all categories of their lives—health care, fitness, nutrition, career management, fashion, and obviously many more. This is especially true for younger consumers that are prime target markets for many products and services—Generation Y millennials and Generation Z just coming of age—all of whom are digitally native. McQuivey continued with his description of the digital customer relationship:

Box 3.1: The Digital Customer Relationship

[The] ultimate digital customer relationship is the type of relationship that digital tools and services enable and that digital consumers welcome. They're happily signing up for anything that tethers them to a source that can give them more of what they want, more easily than before. Even with the supposed threat of privacy all around us, consumers are diving into deep digital relationships with companies or brands that deal with the most sensitive aspects of their lives. Weight-loss app Lose It helps users log personal information such as calories consumed and tell others of their goals, leading to the loss of more than 27 million pounds so far; Square gets consumers to email cash to friends—thus introducing them to Square and inducing them to sign up; and Airbnb has welcomed more than half a million listings of spare rooms and apartments that have been visited by more than 9 million guests. What's more personal than your weight, your money, and your spare room?

Source: James McQuivey, "Brand Relationship Is Dead—Long Live The Digital Customer Relationship," Forrester CMOs Blog, January 22, 2014, http://blogs.forrester.com/category/digital_customer_relationship.

Thus, what precisely is a digital customer relationship and why are they valuable to your company? Digital customer relationships consist of customers using brands, who are empowered with intuitive digital assets and tools that enable in-the-moment customer engagement to solve, satisfy, enhance, and delight in the fulfillment of personal emotional, physical, or social needs—including digitally designing, directing and managing the consumer's most meaningful brand experiences. Staples Connect enables small business managers and homeowners to manage lighting and climate control with an "easy-to-use app [that] works on any smartphone, tablet or PC, and links into the hub—the brains behind your smart home." Staples leverages the consumer's existing digital assets—smartphones, tablets, and PCs—that she is already comfortable with to offer a continuously self-controlled connected experience that promises safety, security, and peace of mind. The digitally connected experience is what matters, it's what keeps the customer deeply engaged. In addition, Staples, a retail brand competing against established home security brands such as Honeywell or ADT, forges a deeper brand relationship, but mainly by empowering the customer in engaging digitally.

Thus, there are three key dimensions to these digital customer relationships:

> ***Customer Engagement:*** *Solving, satisfying, enhancing, and delighting* in the fulfillment of essential emotional, physical, or social needs in intuitive, simple, and productive ways.
>
> ***Customer Enablement:*** *In-the-moment customer enablement* facilitated by digital tools, apps, devices, platforms, and exchanges for searching, sharing, playing, and doing.
>
> ***Customer Choreography:*** *Digitally designing, customizing and orchestrating* the meaningful brand experiences that flow from the brand's digital benefits.

Digital customer relationships are not the same as traditional consumer–brand relationships. "The fact is that many different types of consumer–brand relationships exist and the nature of those relationships has a profound effect on the social, cultural, economic, and marketing outcomes that are observed" in consumers, observed scholar Kevin Lane Keller.[5] Traditional consumer–brand relationships, a central thrust of marketing in the past half-century, are multidimensional and often are viewed

5. Kevin Lane Keller, "Foreword," in *Consumer Brand Relationships: Theory and Practice.*

by consumers in interpersonal terms—grounded in cognition, affect, emotion, and feelings of consumer–brand interdependency and mutual reciprocity. For example, branding scholar Susan Fournier proposed that the quality of a brand relationship be measured along six facets:

1. Behavioral interdependence
2. Personal commitment
3. Love/passion
4. Attachment (encompassing self-concept and nostalgic connection)
5. Intimacy
6. Partner quality

By contrast, digital customer relationships are centered more in the *conative* dimensions of consumer psychology—inclinations to *act* purposefully, mental processes or behavior directed toward *action* or change, including impulse, desire, volition, and striving.[6] Scholar Rick Bagozzi proposed that conation relates to how knowledge (cognition) and emotion (affect) are translated into *behavior* within human beings.[7] Digital innovations thus appear to facilitate, engage, enable, accelerate, expedite, and make more enjoyable the conative processes of *acting, playing, doing, creating,* and *getting things done.*

So in what ways are these digital customer relationships valuable to your brand? Brands and brand names are intangible assets of the firm and their value is driven by the profit contribution generated by customers who purchase and repurchase the brand through time. Pure online digital brands—such as Snapchat, LinkedIn, or Facebook—have considerable capability to grow the value of the brand, more so than nondigital brands (such as Gillette) or even mixed digital brands (such as Apple). They do this by leveraging online connections to dynamically grow the size and worth of the customer base. But how does this operate at a micro level—with individual customers in digital customer relationships as drivers of the value of the worth of the brand? As we saw in the Staples example described earlier,

6. Adapted from Merriam-Webster.com, http://www.merriam-webster.com/dictionary/conation; and The Free Dictionary by Farlex, http://www.thefreedictionary.com/conative.

7. Bagozzi, R., "The Self-Regulation of Attitudes, Intentions, and Behavior," *Social Psychology Quarterly,* 55, No. 2 (1992), 178–204.

digital innovations such as apps, software, and tools often come with very low cost of trial and initial purchase—often the minimal effort required to install a free app on the customer's own digital devices.

The iPhone or Android handheld, the iPad, or Kindle, or Fire, and the PC are all digital assets that consumers have already invested in, and each device is connected to all others—the device brand is increasingly meaningless. However, what really matters is that each consumer has an open platform of digital hardware assets waiting to receive new apps, new programs, and new ideas to delight and engage in—all available for download at little cost to the customer. In other words, for digital customers the cost of new trial is negligible. This facet of digital empowerment alone enables firms to accelerate purchases, leading to greater brand asset value because today's customer purchases create present-day profit cash flows that are more valuable to the firm than deferred profit cash flows. The app, now downloaded on the consumer's personal digital platform, becomes a powerful conduit for marketing influence. Melanie Haselmayr, CEO of Mevvy, The Next Generation Tool & App Store, identified seven essential ways that individual apps and tools create value for customers through their use, which thus generate brand value that grows the firm's intangible assets, used and adapted with her permission:[8]

1. ***Greater Customer Visibility:*** Being present, being "in the way" on a mobile device during routine usage raises awareness, and hence the likelihood that customers engage with the brand, leading to more frequent purchase decisions.
2. ***Creating a Personal Direct Marketing Channel:*** Apps gather together all relevant information about a brand, such as prices, booking forms, search features, user accounts, messengers, and news feeds—including in-the-moment sales and promotions, leading to timely engagement with the brand, more frequent purchase decisions, and often higher margin purchases from impulse buys stimulated by the mobile app.
3. ***Providing Greater Conative Value to Customers:*** Instead of old card-based loyalty point collection programs, customers can now collect and use rewards points via a mobile app, leading to more

8. Adapted from Melanie Haselmayr, "Here's Why Your Business Needs Its Own Mobile App," *Forbes* (November 17, 2014), http://www.forbes.com/sites/allbusiness/2014/11/17/heres-why-your-business-needs-its-own-mobile-app/. Used with permission.

loyalty point downloads, more engagement, and more purchases from return customers.

4. ***Build Brand and Recognition:*** An app or software tool is more than a billboard; it has features that customers love to engage with and forges stronger emotional connections with the brand. And the more often customers engage with your app the greater the likelihood that they buy your product or service. In advertising this is called the "effective frequency": As a rule of thumb, hearing and/or seeing your brand approximately 20 times is what will get you truly noticed.
5. ***Improve Customer Engagement:*** Engagement increases conative connections between the brand and doing things more effortlessly, more delightfully, and satisfactorily. For example, with the dining app Open Table, instead of calling a restaurant for a table you can book the reservation with fewer than five clicks on the Open Table platform. Engagement leads to greater purchase frequency; it also leads to favorable reviews, likes, and word of mouth, stimulating additional customer trial from others and further expansion of the customer base.
6. ***Competitive Differentiation and Switching Costs:*** An innovative mobile app or software tool helps train your customers in *your* ways of doing business, in taking advantage of *your* features, benefits, and the unique value your brand delivers. This reduces your cost to serve these customers, but also builds in psychological switching costs as customers become familiar and comfortable with your business processes and are reluctant to switch to competitors. This leads to greater retention, loyalty, and long-term purchases.
7. ***Cultivating Customer Loyalty Using Within Brand Processing:*** The cacophony of competitive marketing—competitor's billboards, ads, promotions, coupons, emails—all encourage customers to engage in *comparative brand processing,* to compare brands against each other. However, an engaging mobile app or software tool encourages customers to process information about the brand alone, without comparison to other competitive brands. This is called *within-brand processing* and leads to higher likelihood of purchase and higher margins as customers make purchase decisions reflecting a higher willingness to pay without the competitive pressures of other brands.

Early Customer Relationship Management

At the turn of the new century, Fred Reichheld of Bain Consulting, and marketing academicians Katherine Lemon, VK Kumar, Roland Rust, and Valerie Zeithaml led a new school in a new paradigm—the customer relationship paradigm. Customer satisfaction, a focal marketing measure since the 1970s, falls short, they argued; it fails to address *customer profitability* and drivers of customer profitability such as retention, loyalty, and word of mouth. When "newly acquired customers are given a richer experience, those customers will achieve a higher level of satisfaction. As a result, these highly satisfied customers will show stronger signs of loyalty, both through their behavioral loyalty (retention) and through their attitudinal loyalty (for example, positive word of mouth)," said marketing scholars Kumar, Pozza, Petersen, and Shah. "The improved level of retention gives the firm opportunities to cross-sell and up-sell to these customers, providing enhanced revenues and subsequently higher profits. Finally, the profits are then reinvested in new innovations of product and services, strengthening loyalty programs, and increasing the satisfaction of the firm's customers."[9]

At Bain & Company, Reichheld measured profits per customer, showing that improving customer retention led to greater customer profitability—a 5% increase in retention increased customer profitability by 85% in banking and publishing, 75% in credit cards, and 35% in software.[10] What are the levers that drive customer profitability in the customer relationship paradigm? He identified five:

1. **Retention Rate**—behaviorally loyal customers are more profitable.
2. **Margins**—loyal and satisfied customers are less price sensitive than other customers.
3. **Share of Wallet**—loyal customers consolidate their purchases with their favorite brand, including trading up and cross-purchasing within the brand's broader product line.

9. V. Kumar, Ilaria Dalla Pozza, J. Andrew Petersen, and Denish Shah, "Reversing the Logic: The New Path to Profitability" (unpublished research paper, September 2007), 2.

10. Frederick F. Reichheld, *The Loyalty Effect: The Hidden Force Behind Growth, Profits, and Lasting Value* (New York: McGraw-Hill, 1996).

4. **Cost-To-Serve**—nonloyal customers cost more to serve, complain more frequently, and place greater strain on customer service.
5. **Word of Mouth**—loyal customers promote favorable reputation and referral and are more likely to become net promoters (are more likely to recommend the product or service to someone else).[11]

Most significantly, the customer relationship paradigm frames customers as market-based assets—based on *customer lifetime value (CLV).* Customers individually generate a stream of cash flows over the life of the customer relationship, which then can be converted into present-day dollars using a discount rate. In addition, the sum of the CLVs of a firm's customer base can be used to compute customer equity—a customer-driven measure of the value of the firm.[12]

These are foundational theoretical insights. However, the digital economy threatens to disrupt the underpinnings of the customer relationship paradigm in a profound way. Customers are no longer passive participants in the marketplace waiting for marketers to find them and persuade them. Also customer satisfaction as a loyalty measure is often hollow without meaning—customers may say they're satisfied even as they drift away to another brand with an alluring app. The conative dimensions of digital technology invite and entice consumers to engage—with your brand or another brand, with others who love or hate the brand. Digital transforms the brand experience and customer expectations of what the brand is, or what the brand should be.

Indeed, with social media the consumer–brand relationship is no longer quiet and personal, but communal—rowdy—interpersonal: a network of loose-knit relationships with a heterogeneous community of triers, buyers, users, loyalists, promoters, and defectors. Customer purchase and defection may occur personally, but not quietly as customers broadcast their frustrations, failures, and fractious experiences with everyone else in the customer community. A head of digital marketing at one

11. See Fred Reichheld, "A Satisfied Customer Isn't Enough," Working Knowledge, *Harvard Business School*, March 6, 2006.

12. See Roland T. Rust, Valarie A. Zeithaml, and Katherine N. Lemon, *Driving Customer Equity: How Customer Lifetime Value is Reshaping Corporate Strategy* (New York: Free Press, 2000).

corporation commented: In the old traditional economy "brand managers were 'hunters'; consumers were running either toward or away as prey. Now, the microscope is reversed. If brand managers are hunters, the deer also have the guns. Now they can pick up their own blaster and shoot back at marketers, based on their own voice."

Gap, the clothing retailer, tried to quietly freshen its logo after 20 years—to give it "a more contemporary, modern expression. The only nod to the past is that there's still a blue box, but it looks forward," said Bill Chandler, Gap's vice president of Corporate Communications.[13] Brand management did their focus groups, talked among their executive team, and decided on the new design.

The new logo went live on Facebook and quickly generated a torrent of negative social media on Twitter and blogs—"never liked GAP before, like them even less now," "I feel sad for this company, who can't seem to make [its] way out of the 90's."[14] Within a few days Gap recanted the new logo and returned back to the original design—humbled by the power of an activist digital customer community. Gap North America President Marka Hansen said:

> *Ultimately, we've learned just how much energy there is around our brand. All roads were leading us back to the blue box, so we've made the decision not to use the new logo on gap.com any further. At Gap brand, our customers have always come first. We've been listening to and watching all of the comments this past week. We heard them say over and over again they are passionate about our blue box logo, and they want it back. So we've made the decision to do just that—we will bring it back across all channels.*[15]

The digital branding leader concluded: "Even though the logo didn't change the clothes, customers still hated it. Deer have guns to fight back

13. Tim Nudd, "Gap's New Logo: A Social-Media Experiment?" *Adweek* (October 7, 2010), http://www.adweek.com/adfreak/gaps-new-logo-social-media-experiment-12122.

14. Alissa Walker, "Gap on Disastrous New Logo: 'We're Open to Other Ideas,' "*FastCompany* (October 7, 2010), http://www.fastcodesign.com/1662452/gap-on-disastrous-new-logo-were-open-to-other-ideas.

15. Tim Nudd, "Gap Ditches New Logo, Returns to its Old One," *Adweek* (October 11, 2010), http://www.adweek.com/adfreak/gap-ditches-new-logo-returns-its-old-one-12100.

and social media is a big part of it." Most important: the brand is no longer at the center of the customer–brand relationship. Instead it is the customer who is at the center, and brands orbit around the periphery.

Transitioning to a New Paradigm in Customer Loyalty

A foundational premise of the early customer relationship paradigm is that retaining customers and maximizing customer loyalty is a key driver of customer profitability. Most customer-focused companies of the last several decades, for example, have established loyalty programs to stop customer defections to competitors. They capture customer information—name, address, email—then track the customer's purchase history, and then strafe these customers with marketing offers. The problem with the majority of loyalty programs is that they are transparently driven by the marketing incentives of brand managers and marketers to exploit the short-term revenues of the customer relationship. But in the digital economy aggressive commercial loyalty programs only backfire as customers opt out of pushy relationships. And passive marketing loyalty programs that exist merely to keep the customer relationship on file are ineffective, often meaningless.

In fact, "there is considerable anecdotal evidence to suggest that many customers do not want a relationship with most of the products and services (and thus the companies) that they buy. People simply don't have the time, interest, or the emotional energy to form relationships with a wide variety of products and services," said marketing scholar Grahame Dowling. "The reason for this is that relationships are special. They involve two-way trust, commitment, the sharing of information, partnership among people of equal standing, and so on."[16]

A recent Gartner consumer survey showed that 62% of respondents are members of one or more loyalty programs, but more than one-third of participants report never using those programs. According to Gartner Research Vice President Adam Sarner: "Traditional loyalty programs that offer points, rewards and discounts as the core of their offerings are becoming commoditized, forcing providers to find fresh,

16. Grahame Dowling, "Customer Relationship Management: In B2C markets, Often Less Is More," *California Management Review,* 44, No. 3 (Spring 2002), 89.

new ways to encourage brand affinity, expressions of loyalty and to improve the overall customer experience. . . . This trend also encourages the marketing community to re-examine the definition and value of loyalty. At its heart, loyalty is earned when customers consistently choose your products and services over the competition, over an extended period of time. This type of loyalty is rarely achieved through points from an accrual and redemption engine alone."[17]

Amazon Prime is regarded as one of the more successful loyalty programs—and completely digitally driven. Yet it is unprofitable now and may never be profitable given Amazon's historic pricing strategy. In 2015, Prime had between 30 and 40 million members, each paying $99 a year to receive free two-day shipping; unlimited instant streaming of thousands of popular movies and TV episodes (Prime Instant Video); free unlimited photo storage (Prime Photos); unlimited ad-free access to more than a million songs and hundreds of playlists (Prime Music); and borrow one Kindle book per month from more than 800,000 titles for free on any Kindle device with no due dates (Kindle Owners' Lending Library).

Yet Amazon says that Prime's shipping costs were "billions" last year, and another $1.3 billion was spent on Prime video content—not to mention the expense of the other services such as music, photo storage, and the lending library. Simple math suggests that Amazon's revenues are $3 to $4 billion, and Amazon says "the [Prime] programme costs more than it brings in, in the direct sense," said analysts on the Lex team at the *Financial Times*.[18]

However, Amazon Prime is successful on other dimensions. First, it is a good value for customers—the benefits customers receive in exchange for the $99 annual subscription fee is a good deal. For example, customers who order 10 shipments per year with two-day shipping save about $80 to $150 per year. If they regularly use Prime Instant Video, saving $7.99 per month in Netflix monthly subscription fees, they save $96. If they buy one e-book per month at a purchase price of $8 they save

17. Adam Sarner, "A Loyalty Management Screenplay," Gartner for Marketing Leaders (June 10, 2015), http://blogs.gartner.com/adam-sarner/2015/06/10/a-loyalty-management-screenplay/.

18. "Amazon: Buying Loyalty," *Financial Times* (May 25, 2015), http://www.ft.com/intl/cms/s/3/ff369cd8-fb63-11e4-9fe6-00144feab7de.html?siteedition=intl#axzz3bFmccLKy.

$96 per year. Any combination of the above adds up to good consumer value.[19] And Amazon proposes to enhance the Prime value proposition by offering same-day delivery free to Prime members, a $5.99 per order fee savings—at 10 shipments per year this would be worth another $60. On the basis of these calculations, depending on the customer, Prime's total value to the customer could be as much as $332.

However, from Amazon's perspective, the customer lifetime value of these Prime members is much greater than average Amazon nonenrolled buyers: Prime members spend more than twice as much ($1,500) as others who use Amazon ($625), according to Consumer Intelligence Research Partners.[20] And their retention as long-term customers is longer as well. This is the point of Amazon Prime: It is more than a simple loyalty program. It has become an Amazon intangible asset—a market-based asset—based on retaining and sustaining loyal customer purchases, which generates positive cash flows over long periods of time in the same way that iTunes is a market-based asset for Apple, and Google's search engine is for Google.

Customer-Driven Brand Loyalty

In the digital economy, the new paradigm for brand loyalty is customer-driven brand loyalty—meaning that customers define, determine, and drive the dynamics of the customer–brand relationship. This upends the paradigm of traditional relationship marketing in which brand managers define, determine, and drive the dynamics of the brand relationship. In the world of markets and exchange, knowledge is power—and knowledge asymmetry tilts the balance of power in favor of either customer or seller. Customers will increasingly drive customer–brand relationships because digital technology has empowered them with a customer knowledge advantage vis-à-vis brands that is customer self-selective, deep, customized, and in-the-moment—facilitated by online search, mobile agility, and social sharing. By contrast, with the traditional marketing paradigm brand marketers historically drove brand relationships because of their superior financial resources, which gave

19. Sara Silverstein, "Here's How Much You Have to Buy to Make Amazon Prime Worth It," *Business Insider* (April 11, 2015), http://www.businessinsider.com/amazon-prime-terms-cost-2015-4.

20. "Amazon Buying Loyalty, "*Financial Times* (May 25, 2015).

them a market-persuasion advantage vis-à-vis customers that was brand selective, efficient with mass scale, and offered compelling quality and convenience.

Let's look more closely at the Customer-Driven Loyalty paradigm and contrast it with the Brand-Driven Loyalty paradigm (see Figures 3.1 and 3.2).

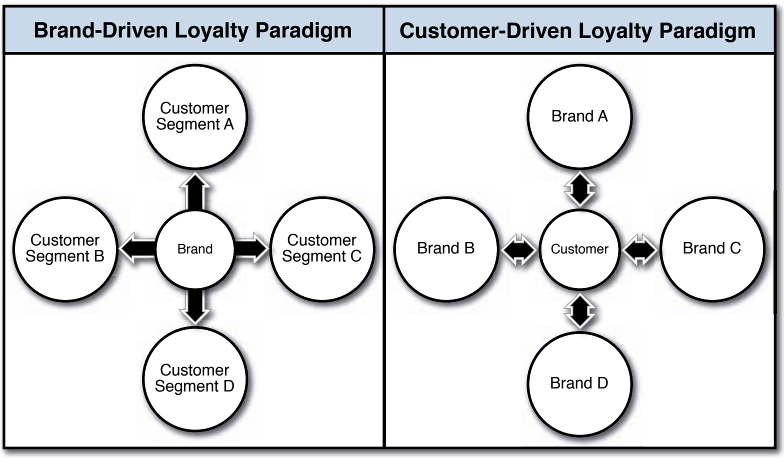

Figure 3.1 Loyalty Paradigms

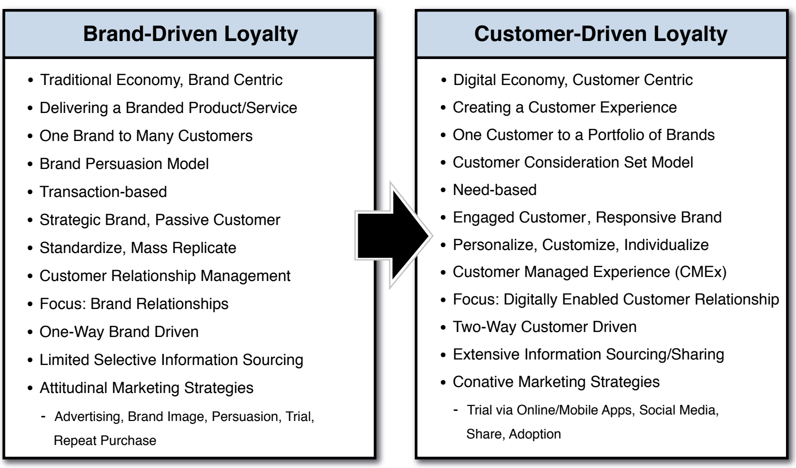

Figure 3.2 Shifting Paradigms in the Customer–Brand Relationship

Definition: In the digital economy, customer-driven brand loyalty is based on relationships that are *customer centric*, with customers at the center and brands orbiting on the periphery seeking to establish or strengthen the relationship by digitally empowering customers—customers manage their brand experiences and experiential brand relationships digitally, online (see Figure 3.2, right). Indeed, digital is integral to the customer experience with the brand; it becomes intertwined with the customer's utility, satisfaction, and identity. It is a seamless tool for personal expression in the relationship. Using the brand, customers *create their own brand experiences* that are personal, customizable, and individual. For example, Saucey, an online delivery app for alcohol and cocktail products, shows how to adapt digitally to the new customer-centric paradigm using a clever smartphone app that offers fast, easy, and friendly on-demand alcohol delivery. Chris Vaughn, CEO and founder, said:

> *We have unbelievable amounts of new data around consumer drinking behaviors that a lot of brands and companies have never had access to before. We are able to provide a better shopping experience than if you went out to the retailer, and it's something that is tailored based on your purchasing behavior.*[21]

By comparison, in the traditional economy brand relationships are brand centric with the brand at the center and customers orbiting on the periphery as brand managers attempt to corral more customers (expand the customer base) and strengthen loyalty to the brand. Here brand marketers have been taught since business school how to be market oriented (a 1990s marketing concept)—they analyze and strategize about markets and market segments using traditional market research such as focus groups, market surveys, or structured market experiments—for example, conjoint analysis.

Relationship Focus: Customer-Driven Loyalty is focused on *digital customer relationships* with brands. Communications with brands are *two way.* Customers expect to hear back from marketers when they talk—to be interactive, dynamic, flexible, and responsive. These two-way

21. "Uber, But For Everything," On Point with Tom Ashbrook (June 1, 2015), audio program minutes 19:00–19:18.

conversations are customer controlled, customer governed, and hence *customer driven*. Digital technology enables customers to interact with brands personally, one-to-one—via chat, hangouts, email, webinar, and so on. It enables customers to get attention and solve problems directly—by tweeting complaints, blogging, and writing reviews—and to define their relationship preferences, such as the level of privacy they will accept, and the intensity of marketing communications they expect to receive.

However, the Brand-Driven Loyalty paradigm is limited to one-way, inflexible brand-driven media communication plans that are controlled entirely by the brand; brand marketers thus deliver a product or service that is mostly standardized and replicated to achieve profit-optimal scale, and similarly manage the customer relationship in a mostly standardized way—*customer relationship management* (CRM).

Consideration and Choice: Customer-Driven Loyalty is based on a new decision model with *one customer engaging with multiple brands*—using a *customer consideration model,* choosing from among a consideration set of several or multiple brands to achieve the customer's total need. For example, a sailing enthusiast might use the Weather.com app (TWC) for a general weather forecast, the LightningFinder app for finding the location of especially severe weather, the PocketGrib and SailFlow apps for measuring wind speed and direction, the iHurricane app to follow the track of dangerous storms, and the TideGraph app for predicting the timing and mean height of high tides and low tides. Customers extensively access information from limitless information sources—online, retail, word of mouth, and so on.

By contrast, with Brand-Driven Loyalty the business model is one brand to many customers with brand strategies focused on brand persuasion. Brand marketers seek to selectively *limit* customer information sourcing and search by investing in persuasive, entertaining, or repetitive messaging focused exclusively on the brand.

Brand Strategies: With Customer-Driven Loyalty customers engage with cognitive and tactile engagement. Brands must act strategically to facilitate *customer engagement*, or to engage with customers in designing, directing, creating or co-creating a compelling, captivating, appealing, and delighting experience with the brand. Here in a more digitally centered experiential context brand marketers deploy *conative* *marketing strategies* centered on helping customers act, do, play, and enact, using digital tools to purposefully—or impulsively—solve, create, explore, measure, track, organize, purchase, and engage in countless other activities designed to help the customer to enjoy a better, more fulfilling life. Marketing objectives focus on customer trial facilitated by online or mobile apps, customer learning and sharing via social media to form cognitive beliefs and affective feelings about the brand, and finally customer adoption.

By contrast, with Brand-Driven Loyalty brands are strategic but assume that customers are passive. Brand marketers deploy attitudinal marketing strategies centered on advertising, brand image marketing, persuasion, trial, and repeat purchase.

In September 2014 Brand Keys, a New York-based brand loyalty research consultancy using consumer-centric research methods, published its Loyalty Leaders analysis based on brand loyalty assessments from 43,238 consumers, 18 to 65 years of age, drawn from the 9 U.S. Census Regions, examining 721 brands across 65 categories. The best of the best in customer loyalty were brands with connections to the digital economy—Apple, Amazon, WhatsApp, Google, YouTube, and Kindle. "Brand loyalty has always been driven by emotional engagement, and the rankings on this year's list should make it abundantly clear to marketers that connection, meaning, and differentiation is everything," said Robert Passikoff, Brand Keys founder and president. "This year certain categories rose to the top because of the high levels of *engagement* that consumers show for them, and their ability to deliver against consumers' increased expectations."[22]

Nineteen of the top 20 loyalty brands were integrally connected to the digital economy—Dunkin' Donuts, the lone exception, is well known for its fiercely loyal out-of-home coffee customers. Forty-five percent of the top100 brands account for consumer outreach and engagement via cellular and social networks, and the phones, smartphones, computers, and tablets. See Figure 3.3.

22. Brand Keys Press Release, The 2014 Brand Keys Loyalty Leaders List, http://brandkeys.com/wp-content/uploads/2014/12/2014-Brand-Keys-Loyalty-Leaders-List-PR-Finalv3.pdf. Emphasis added.

Here are the top 20 Brand Keys loyalty leaders:

Top Brand Keys Loyalty Leaders
1. Amazon: *tablets*
2. Apple: *tablets*
3. Apple: *smartphone*
4. You tube: *social networking*
5. WhatsApp: *instant messaging*
6. Amazon: *online retail*
7. Google: *search engines*
8. Kindle: *e-readers*
9. Samsung: *smartphones*
10. Dunkin' Donuts: *coffee (out-of-home)*
11. Facebook: *social networking*
12. Netflix: *video streaming*
13. Beats by Dr. Dre: *headphones*
14. Call of Duty: Ghosts: *major league gaming*
15. iTunes: *video streaming*
16. Zappos: *online retail*
17. Apple: *computers*
18. Instagram: *social networking*
19. PayPal: *online payments*
20. Twitter: *social networking*

Figure 3.3 Top 20 Brand Keys Loyalty Leaders

Source: Brand Keys Press Release, "The 2014 Brand Keys Loyalty Leaders List." http://brandkeys.com/wp-content/uploads/2014/12/2014-Brand-Keys-Loyalty-Leaders-List-PR-Finalv3.pdf.

The Impact of Experience on Loyalty

The Brand Keys loyalty research provides evidence of the paradigm shift taking place in customer relationship marketing, resulting in "the highest level of emotional consumer expectations for products and services in two decades," according to Passikoff. "Brands best able to meet—sometimes even exceed—consumers' emotional and rational expectations will have more loyal customers, higher engagement power and, ultimately, demonstrate greater profitability and market power."[23]

23. Brand Keys Press Release, Brand Keys 2014 Customer Loyalty Index Finds Consumers' Emotional Expectations for Products, Services at 20-year High. http://brandkeys.com/wp-content/uploads/2014/02/2014-CLEI-PRESS-RELEASE-FINALFeb1-public.pdf.

Brand theorists have long believed that brand loyalty is defined by two dimensions: (1) favorable brand *behaviors*—whether buyers consistently repeat purchase and (2) favorable brand *attitudes,* which are a function of consumer beliefs about the brand's performance, and affective feelings about the brand—driven by brand imagery and brand experience. However, digital amplifies, intensifies, and adds new dimensionality to this theory. Customers may engage in brand trial virtually on a digital platform, in addition to physically at a retail, or experientially test driving the car. Digitally, for example, new car buyers can design their new car to be precisely what they want it to be, adding features, performance packages, services such as roadside assistance or extended warranties; studying the car's imagery in 360-degree views, both interior and exterior—all done online on their tablet, smartphone, or laptop at the car manufacturer's web platform; or using their mobile app for various helpful auto-related activities.

General Motors, for example, has separate mobile apps for myChevrolet, myGMC, myBuick, myCadillac, with various helpful utilities and information. The myBuick app has buttons for roadside assistance, parking services, OnStar emergency service, schedule service, locate a dealer, offers, owner's manual, lights and indicators, and personal profile settings, with this description from Buick: "The myBuick App is designed to provide convenient, mobile access to practical and functional features a car owner would want at the touch of a button. The Find My Car feature lets you mark where you parked on a map so you can find it easily. Schedule service, or get roadside assistance when you need it. If a warning light appears on your dashboard, the Warning Lights reference takes the guesswork out of what it means. And, you can look up more information in the Owner Manual. Offers makes it easy to see national service offers that are available and find a participating dealer."[24]

The GM app family also demonstrates how digital can make consumer experience with the brand personalized and customized, for example, by enabling consumers to chat with a car representative online, or by letting them create and save their designs for future access and inspiration, or simply enabling them to manage their preferences online for how they want their profile to appear and the types of information they want to

24. myBuick app, GooglePlay, http://play.google.com/store/apps/details?id=com.gm.buick.nomad.ownership&hl=en.

receive. Digital enables the brand to deliver virtual personal experience at scale, to make these virtually customizable experiences available to large populations of consumers and customer segments—while retaining the personal and the intimate.

Thus, brands that consistently perform well—that *deliver highly differentiated performance satisfaction and delight*—achieve greater customer-driven brand loyalty. In addition, brands that consistently *enable a highly personalized, customized individual experience* that enables "me" the consumer to personally achieve and manage my own individual goals and satisfactions—similarly achieve greater customer-driven brand loyalty. It is the combination of these two dimensions that define four primary types of customer-driven brand loyalty:

1. ***Experience-Driven Loyalty:*** It is the combination, first, of highly differentiated brand performance yielding high satisfaction and delight—the brand delivers compelling brand performance that keeps it at the forefront of the consumer's consideration. And second, the brand enables a highly personalized and customized experience that is relevant and meaningful at an individual level. Such experientially loyal customers are highly valuable for several reasons: (a) *financially,* they consistently repeat purchase at premium prices and margins; (b) *socially,* they consistently share favorable word of mouth and evangelize their perceptions of superior quality, personal brand experience; and (c) *critically*, they consistently provide direction (feedback) to the brand to further define and refine brand delivery so that it is consistent with their emerging expectations for brand meaning, brand quality, and brand experience. Digital especially offers many more touchpoint opportunities to achieve on these dimensions simultaneously. We mentioned Amazon's Prime loyalty program earlier, for example, that appears to achieve Experience-Driven Loyalty for many of its digitally engaged customers.
2. ***Product-Driven Loyalty:*** This type of brand loyalty is often mistaken for higher forms of brand loyalty, frequently seen in first-mover brands that establish a new product category by delivering basic-level brand experiences with little or no personal or individual experiential focus. For example, some Whole Foods customers are loyal purchasers not necessarily because they are loyal to the Whole Foods brand, or its sub brands like 365,

but because they are loyal to organic food. The loyalty of these customers is vulnerable to various market forces—the entry of new competitors with better prices or value propositions, or the criticisms of social media. And if the brand does little to foster personal, individual experiential focus, brand loyalty is passive, less engaged personally. Spotify has achieved impressive levels of customer loyalty as a pioneer in the streaming music business; but what kind of loyalty has it achieved? It will be interesting to see how it fares as its customer loyalty is tested by the entry of other compelling streaming music services, recently Apple Music, which signed up 15 million trial subscribers in 3 months compared to Spotify's paying customer base of 15 million subscribers.

3. ***Performance-Driven Loyalty:*** This is the combination of highly differentiated brand performance in which the brand delivers high satisfaction and delight. Yet it delivers only a standardized experiential focus that is not tailored to be relevant or meaningful to "me" the consumer, individually or personally. These companies, often stalwarts in the traditional economy—such as Jiffy Lube, auto dealers, coffee shops, or walk-in medical clinics—achieve superior convenience and quality brand performance, but often fail to leverage the capabilities of digital customer relationships to deliver an experiential focus that is truly individual and personal. Brands focused solely on building Performance-Driven Loyalty are likely to underachieve in the digital economy where other more digitally nimble competitors make inroads into this usually reliably "loyal" customer base by building digital customer relationships.
4. ***Accrual-Driven Loyalty:*** This is the combination of personalized and customized experiential focus by the brand facilitated by digital, but not necessarily compelling brand performance—the brand is not at the forefront of the customer's consideration because of only average or subpar performance. Brands that rely on this kind of limited loyalty often build loyalty programs to maintain brand parity with other competitors and players in "me-too" manner. As noted earlier, these are traditional brand loyalty programs that have become commoditized as customers use them essentially to achieve more acceptable prices, or they largely ignore them.

> In contrast to Experience-Driven Loyalty customers, these Accrual-Driven Loyalty customers are less attractive financially because they are lower-margin loyal customers—requiring a consistent loyalty discount for continuing loyal purchases. Brands built purely on rewards loyalty are vulnerable to loyalty program commoditization cited earlier. Recall Gartner Group's estimates that 62% of respondents are members of one or more loyalty programs, but more than one-third of participants report never using those programs. High value accrual programs such as with airlines and hotels design in high switching costs that may make it more difficult to switch (for example, monetary, time-to-value). Yet these incentives can serve as golden handcuffs that are subject to disruption as aggregators and wholesalers such as expedia.com, hotels.com, and others insert themselves digitally into the customer journey with their own substitute.

Havas Media did research on more than 1,000 brands across 300,000 respondents, addressing whether brands were "meaningful." Havas found that few consumers find "brands" to be *meaningful* to them on an individual basis—declaring they would not care if 74% of brands disappeared altogether. Dominique Delport of Havas Media Group said: "The results of Havas' Meaningful Brands® analysis revealed that a brand's 'Share of Wallet'—a metric used to measure the percentage spent with a brand vs. the total annual expenditure within its category—is on average 46% higher for Meaningful Brands and can be up to as much as seven times larger."[25]

According to Havas, for every 10% increase in meaningfulness, a brand can increase its purchase and repurchase intent by 6% and price premiums by 10.4%. Consequently, "Meaningful Brands outperform the stock market by nearly seven fold, with top scorers delivering an annual return of 11.76%—nearly seven times higher than the STOXX 1800 stock index. Not only do top scorers in Meaningful Brands 2015 outperform the stock market by 133%, the gap has widened since 2013 (120%)."[26]

25. "Top Scoring Meaningful Brands Enjoy a Share of Wallet 46% Higher than Low Performers," *Havas Media Press* (April 28, 2015), http://www.havasmedia.com/press/press-releases/2015/top-scoring-meaningful-brands-enjoy-a-share-of-wallet-46-per-cent-higher-than-low-performers.

26. Ibid.

Demonstrating Loyalty to Consumers with Surprise and Delight

We noted earlier that in today's age of the customer, consumers now expect brands to show how loyal they can be to them as an individual. This is not as complex as it might sound, as techniques such as surprise and delight tactics are very effective at achieving this end goal. Here are a number of excellent examples of how some brands are using surprise and delight tactics to demonstrate their loyalty to consumers:

- **Mastercard**: Under its Priceless Surprises program launched earlier in 2015, Mastercard customers who tweet under #Priceless Surprises have the chance to be treated to an escalating tier of awards such as speakers, headphones, music downloads, free Uber transportation, and a day with Justin Timberlake. Surprises are based on the customer's day-to-day card use and social media interaction.
- **Zappos:** The online shoe retailer keeps surprising customers. When one person placed the first order with them, Zappo's immediately sent the user an email that said "great news—we've upgraded shipping on your order to next day delivery." This hooks customers via that one simple fast surprise and delight tactic.
- **People Per Hour:** This has a community of more than 500,000 users. One of the main delights for customers is getting support tickets answered by the CEO and founder. Customers get delighted when they see that the guy at the top takes time for this and considers customer support important.
- **Grasshopper:** A phone service business that sells call forwarding and answering services to small businesses, it regularly sends out handwritten thank you notes to customers and even to kind folks who mention or feature them. This makes customers feel appreciated and loyal to the brand, and in the tech world handwritten notes feel much more important than digital notes. Thank you notes serve as an element within customer service that shows you're willing to go that extra mile for those that give you business.
- **Ritz-Carlton:** Employees at the Ritz are trained to anticipate the unexpressed wishes of their guests. During one stay the

receptionist called a guest and said, "We see that you are scheduled to leave very early tomorrow. Can we leave a pot of fresh, hot coffee outside your door?"[27] This is surprising: The hotel went out of its way and anticipated customer needs before they even asked for it.

- **JetBlue:** When on a JetBlue flight last month a customer's TV screen wasn't working. Although the flight was a short one, he received a $100 deposit into his account the next day with a sorry note. This of course paid dividends in terms of future loyalty to the brand. JetBlue's welcoming and humorous staff is a surprise delight tactic in itself. Customers enjoy JetBlue flights because of their fun, humorous, sometimes exciting, and stress-free atmosphere—and the somehow systematic attention to detail.
- **Coke:** Coke sought to engage and reward its most important brand advocates. Using the data from social media research, the brand identified its champions and its "power middle," and the advocates were rewarded with personalized Coke items and even personalized experiences.
- **WestJet:** WestJet made waves when it showed its loyalty to its customers with its "real-time giving" campaign. The video telling its story to date has more than 41 million hits.[28] In the event, consumers boarding a flight could talk with "Saint Nick" on a video screen and share what they would really like for the holidays. Thinking it was merely a fun interactive experience, they would ask for anything from socks to big screen TVs—only to find out when they arrived at their destination that the presents were right there waiting, courtesy of WestJet (including the big screen TVs).

Middle East Airlines used a similar experience for a member of my research team for this book, who was flying on Christmas eve night from Boston to Beirut. When sitting at the gate some seemingly random people approached her with a camera and a microphone. They asked if she had could wish for one Christmas gift what would it be. At that time she wanted the new *iPhone* 6; so randomly she mentioned that,

27. http://www.forbes.com/sites/carminegallo/2012/04/10/how-the-ritz-carlton-inspired-the-apple-store-video/

28. https://www.youtube.com/watch?v=zIEIvi2MuEk

and then forgot about the incident for the rest of the flight. At the end of her flight she went to the baggage-claim area to await her luggage. However, instead of the luggage, there were hundreds of gifts wrapped in boxes with the names of each passenger on each one. She waited for her gift, and as soon as she opened it, sure enough, there was an iPhone 6. Needless to say, this has since become her airline of choice.

Some of these examples demonstrate the power of the personal touch whereas others demonstrate the surprise and delight that can be more systematic and scalable in nature.

Expectations and Drivers of Customer-Driven Brand Loyalty

The digital economy has caused consumers to change their expectations of what quality, service, and convenience really mean. For instance, note that when you place an order with a catalog or online company, you now expect to receive instantly a confirmation email and then a shipment tracking number. Consequently, all firms must retool, reinvent, and digitally innovate to retain long-time customers and ensure continuing loyalty. Author Adrian Wooldridge said:

> *Information technology is changing the world as dramatically as machine technology did in the Victorian age. [Joseph] Schumpeter once celebrated capitalism's ability to turn silk stockings from a rarity reserved for queens into an everyday luxury available to factory girls in a mere three centuries. Mobile phones went from being toys of the rich to tools of three-quarters of the earth's population in two decades. . . . The telephone took 70 years to reach half of American households. Electricity took 50 years. The internet took a decade. Companies have already come from nowhere to reorganise entire industries—classified ads (Craigslist), long-distance calls (Skype), record stores (iTunes), research libraries (Google), local stores (eBay), taxi services (Uber).*[29]

Here's a detailed illustration of how digital technology influences customer expectations: Uber upended the world of taxi service, not merely by creating

29. Adrian Wooldridge, *The Great Disruption: How Business is Coping with Turbulent Times* (New York: *The Economist*, 2015), 3–4.

a smart app for hailing a ride, but by designing principles into the app to give unprecedented quiet power to customers—transparency, simplification, customer experience ratings—thus changing customer expectations of what a cab ride should be. Rather than hail a speeding cab from the side of a busy road, with Uber a click on your smartphone and a car is on its way with total *transparency*—status updates about arrival time, a picture of your driver, the car, and previous customer experience ratings—the driver's rating by other riders. Upon arrival your Uber transaction is expedited with *simplification*—no wasting time with cash, fare, and tip calculations, simply get out of the car as your credit card is charged a reasonable fare, including tip. Traditional cabs have no system for feedback and complaints are difficult to track because cabs are leased to drivers. But at the end of an Uber ride you rate the driver, and the driver rates you—market-driven measures of customer experience and satisfaction.

Noriaki Kano of the Tokyo University of Science developed a Model of Customer Satisfaction in 1984 that helps explain theoretically how innovations change customer expectations and thus influence customer loyalty and retention. According to Kano, not all attributes of a product or service are evaluated in the same way—not only are some attributes judged to be more or less important, but also these attributes are classified differently and therefore evaluated differently as well. He identifies three types of attributes:

1. ***Basic Performance Attributes*** are assumed by customers to be fundamentally basic to the delivery of the product or service. They are minimum requirements that must be present for satisfaction, and they lead to dissatisfaction if not present or not fulfilled. However, they do not necessarily lead to satisfaction if they are fulfilled or exceed expectations. They are prerequisites and are taken for granted. A watch must be able to satisfactorily tell time; yet if it tells time with much greater precision, for example, the new Apple Watch is accurate to within 50 milliseconds, this incremental performance *doesn't lead to greater customer satisfaction or loyalty*—because telling time is merely a *basic performance attribute.*
2. ***Linear Performance Attributes*** lead to greater satisfaction if performance is high, and to dissatisfaction if performance is low; the performance–satisfaction relationship is linear and symmetric. Customers expect these attributes to be present and are more satisfied with more performance along these attributes, and are

less satisfied with poorer performance. Thus, customers are proportionately more satisfied with a longer battery life, say 50% longer than normal, and would be similarly proportionately more dissatisfied with a shorter battery life, say 50% shorter than normal. These *linear performance attributes contribute incrementally to customer satisfaction and loyalty.*

3. ***Delightful/Excitement Attributes*** are those that customers love but do not expect. These attributes lead to greater customer satisfaction if delivered well, but do not lead to dissatisfaction if not delivered well. These attributes surprise customers and create delight. For example, the Apple Watch is fun because you can tap it (to send a message) or talk to it (to ask Siri a question). Because the Apple Watch performs on these delightful/excitement dimensions very well, it leads to disproportionately greater customer satisfaction, but if it didn't perform well on these dimensions it would not significantly affect customer satisfaction because customers didn't expect it to begin with. *Delightful/excitement attributes are drivers of customer satisfaction and customer loyalty.*

Figure 3.4 shows the formal Kano Model.

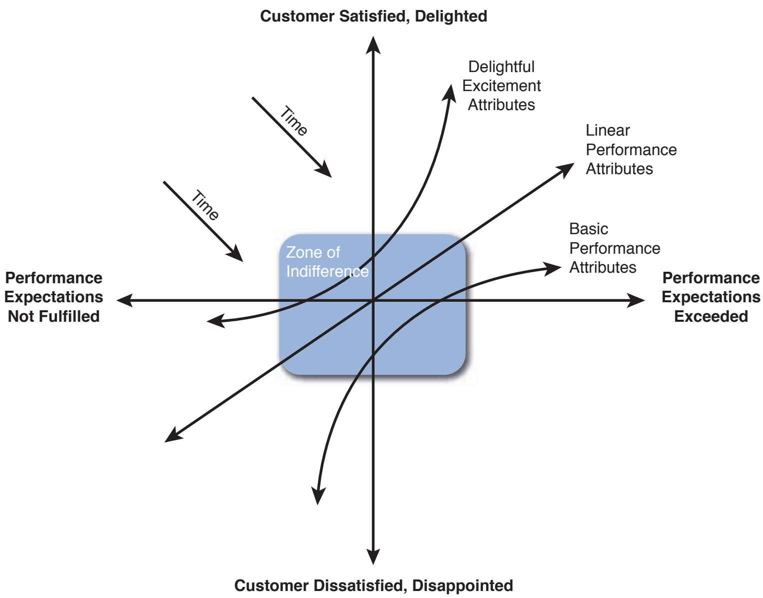

Figure 3.4 The Kano Model

Kano's theory is important for several reasons, but the most important for our discussion here is that customer satisfaction is a key determinant of customer-driven loyalty. And it is driven first and foremost by continuing customer delight and excitement, which requires that your brand deliver customer benefits in new ways that are unanticipated, unexpected, and pleasantly surprising to customers. The theory behind Kano's model is based on expectancy theory that "satisfaction is formed through a cognitive comparison of perceived performance with pre-purchase expectations. Perceived performance can be greater than expectations, resulting in positive confirmation (satisfaction), or lower than expectations, resulting in negative disconfirmation (dissatisfaction). If the product performs as expected, the comparison results in moderate satisfaction or indifference."[30]

The second reason that Kano's theory is important is that the key determinants, these delightful and exciting attributes that drive customer satisfaction and customer-driven loyalty, shift down and to the right over time because with experience, with exposure to competitor products and services, they become expected and get incorporated into customer expectations (see Figure 3.4). Consequently, they get pushed into the zone of indifference leading to perceptions of mediocrity; to declining enthusiasm for the brand; to declining repeat purchase and customer retention, lower share of wallet; and eventually to quietly opting out of the relationship.

Watching the digital economy emerge from the sidelines, some traditional brands are content to go to market with a "Gen-One" (Generation 1.0) website oriented toward one-way product information and advertising messaging. One brand management team we interviewed during our field research revealed that they felt significantly behind in digital marketing; they wouldn't even classify themselves as a "first follower." Their website, they confessed, was not all that exciting. The brand was proud of its Facebook page and had started promoting recipes on Pinterest. And the center of their strategy as a dessert brand was to capture 13–17 year olds to ensure future adoption and brand loyalty—of course these 13–17 year olds are core members of the millennial generation who are digitally

30. Kurt Matzlera, Franz Bailomb, Hans H. Hinterhuber, Birgit Renzla, and Johann Pichler, "The Asymmetric Relationship Between Attribute-Level Performance and Overall Customer Satisfaction: A Reconsideration of the Importance–Performance Analysis," *Industrial Marketing Management,* 33 (2004), 272–273.

native in so many ways, particularly with mobile—smart phones and tablets, not even laptops or desktop machines.

But brands such as this are sliding into the zone of indifference, their customer satisfaction drifting and brand loyalty quietly eroding—not because their product satisfaction suffers (they still deliver great dessert products), but because their model for customer engagement is decades old. They are neither exciting nor delightful; the digital revolution has rendered their traditional brand value proposition as no longer compelling nor interesting.

To understand the strengths and vulnerabilities of your brand, we recommend that you conduct a Kano/PoD Comparative Assessment exercise. This involves expert judgment from your customer-facing personnel (marketing, sales, field engineers, customer support personnel) in two ways: First, identify the brand's Points of Difference (PoDs) and Points of Parity (PoPs); and then, second, identify the brand's Kano Performance Attributes—Basic Performance Attributes (BPAs), Linear Performance Attributes (LPAs), and Delightful/Excitement Attributes (DEAs).

Brand managers and MBA students are familiar with strategically identifying a brand's Points of Difference, and Points of Parity.[31] *Points of Difference* are dimensions on which the brand delivers clear, compelling, superior, and exclusive differential benefits and performance relative to competing alternatives in the market space. For example, FedEx's recent product innovation, SenseAware, a multisensor device that detects and transmits near-real-time shipment data on six key variables, including location, temperature, humidity, and shock,[32] is a Fedex Point of Difference. *Points of Parity* are those benefits and performance dimensions that buyers expect all competitive brands to deliver as a competitive player in the category. Thus, all overnight package delivery services offer guaranteed overnight delivery, shipment tracking, detailed user documentation of all transactions, app-based interface for shipping and tracking, and so on. The Kano/PoD exercise template is shown in Exercise 3.1.

31. See Kevin Lane Keller, Brian Sternthal, and Alice Tybout, "Three Questions You Need to Ask About Your Brand," *Harvard Business Review* (September 2002), 80–86

32. "FedEx Innovation: Four Decades of Breakthroughs," About FedEx, http://about.van.fedex.com/our-people/innovation/.

Exercise 3.1: Comparative Kano/PoD Assessment

Exercise

Assemble the brand's customer-facing personnel (marketing, sales, field engineers, customer support personnel) and conduct a Comparative Kano Assessment exercise of your brand and key dimensions of brand differentiation: Choose a product, service, or brand to focus on. Then address these questions, following three general steps.

Step 1: *Points of Difference/Points of Parity (PoD/PoP) Assessment*

- What are the truly compelling Points of Difference of your brand? Are these points clearly compelling, superior, and exclusive vis-à-vis competitors?
- What are the competitive Points of Parity that the brand must deliver on as a legitimate and credible player within the product category? How well does the brand deliver on these basic Points of Parity?

Step 2: *Kano Performance Attribute Assessment*

- What are the brand's Basic Performance Attributes (BPAs)—minimum requirements that must be present and fulfilled for customer satisfaction? (These may be identical to competitive Points of Parity.)
- What are the brand's Linear Performance Attributes (LPAs)—that lead to customer satisfaction if performance is high and customer dissatisfaction if performance is low? How well does the brand perform on each attribute relative to competitive brands—proportionately how much better or worse?
- What are the brand's Delightful/Excitement Attributes (DEAs)—that customers love but did not expect, that surprise customers and create delight? How well does the brand perform on these DEAs?

Step 3: *Final Kano/PoD Comparative Assessment*

- What is the correlation between the brand's Points of Difference and the brand's Delightful/Excitement Attributes? Are the brand's PODs the same as the brand's DEAs?

The Final Kano/PoD Comparative Assessment, the third step in the exercise, can be revealing. If the brand's Points of Differentiation do not align with delightful/excitement attributes, this may portend trouble ahead.

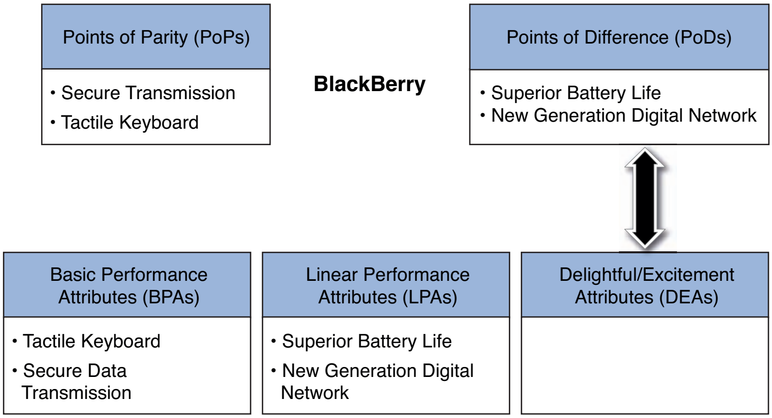

Figure 3.5 Kano/PoD Comparative Assessment: BlackBerry 2007

For example, Figure 3.5 shows a Kano/PoD Assessment for the BlackBerry just prior to the market launch of the Apple iPhone in 2007. The BlackBerry executive team believed that the BlackBerry had superior, compelling, and exclusive product differentiation in the smartphone category, but none of these dimensions were delightful or exciting. The BlackBerry had superior battery life versus the iPhone—a linear performance attribute; BlackBerry operated on newer generation digital networks compared to the AT&T network that Apple's iPhone was contracted to work with—a basic performance attribute; BlackBerry offered secure data transmission compared to the iPhone's broader Internet protocol—another basic performance attribute; and BlackBerry offered a tactile keyboard compared to Apple's digital onscreen keyboard—another basic performance attribute.

By comparison, Apple's new iPhone was exciting—because it introduced new attributes that were at once delightful and stimulating: (1) Integrated cell phone, iPod digital music player, and calendar never before put together; (2) website access from a mobile device; (3) Apps with unlimited possibilities for pleasure and utility; and (4) simple design beauty—as David Yach, RIM's chief technology officer, said: "I learned that beauty matters. . . . RIM was caught incredulous that people wanted to buy this thing,"[33] Apple performance on its attributes was inferior to BlackBerry—shorter battery life, older generation digital network for

33. "The Inside Story of How the iPhone Crippled BlackBerry," *Wall Street Journal*, http://www.wsj.com/articles/behind-the-rise-and-fall-of-blackberry-1432311912.

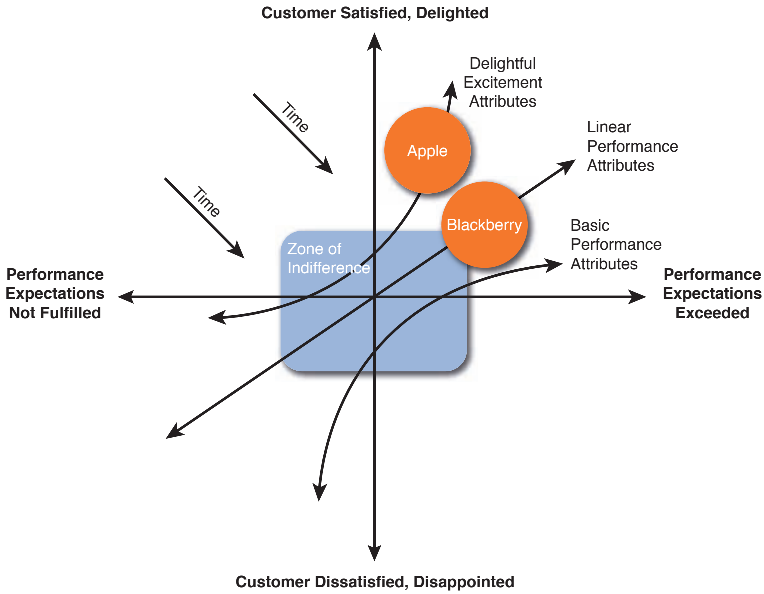

Figure 3.6 Comparative Kano/PoD Assessment: Apple versus BlackBerry

Internet access, nontactile digital onscreen keyboard, and little transmission security. Nevertheless, the unexpected appearance of iPhone's new attributes delivered delight and excitement, and transformed the smartphone category into a mobile digital platform, with Apple as the dominant frame of reference (see Figure 3.6).

How Customer-Driven Brand Loyalty Builds Market-Based Assets

We now turn to a different question: How exactly does customer-driven brand loyalty lead to greater market value and brand equity? Continuing our illustration from the last section, Apple offers an especially vivid example in the digital world because of its successful record in leveraging its large and loyal customer base to create new and valuable brands—iPod, iPhone, iTunes, iMac, and so on, enabling it to become the most valuable company at the top of the Financial Times Global 500.

Consider this question: If you were to place a value on the various types of assets that make Apple valuable, which do you think are most valuable to its shareholders—its tangible or its intangible assets? Apple's tangible assets include its property, plant, equipment (factories, office buildings, real estate, computer networking assets that host iCloud or iTunes, and so on), its supply chain inventories of products and product parts, its accounts receivables from distributor and retail relationships, and its deep reservoirs of cash (reported at $203 billion as of June 2015, more than the total foreign reserves of Germany).[34] Apple's intangible assets include the Apple logo; its trademark names such as *iPhone, iPad, Apple Watch, and iTunes*; and its patented user interface designs seen in its software platforms such as OSX on the Mac and iOS on the iPhone.

Apple's total worth is the sum of these two asset classes—tangible and intangible. On June 27, 2015, Apple reported that its tangible assets were worth $264 billion. Calculating the true value of Apple's intangible assets is much more difficult.[35] However, we can *estimate* their worth by simply taking Apple's total worth on the stock market—its market capitalization value, and subtracting its tangible assets. Apple's total worth (its market capitalization on the stock market) the following Monday, June 29, 2015, was $710 billion. Which means that Apple's intangible assets are worth about $446 billion (see Figure 3.7). In other words, Apple's intangible assets are worth nearly twice as much as its tangible assets. This is not only true for Apple, by the way; it is true for most companies—their intangibles are worth more than their tangibles.

What is it that makes Apple's intangible assets worth so much—that makes them valuable in the first place? It is Apple's vast base of loyal customers who return again and again to purchase, repurchase, trade-up, and cross-purchase Apple products and services—because they recognize, they trust, and they embrace Apple's brand names, logos, and product designs and brand experiences as their own. It is the continuing stream of sales revenue, gross profits, and operating profits that flow from Apple customers that drives the value of Apple's brands.

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34. Source: Apple Inc., Form 10Q, July 22, 2015 for the period ending June 27, 2015. Cash and cash equivalents, $15.3 billion; short-term marketable securities, $19.4 billion; long-term marketable securities, $168.1 billion. As of 2014, Germany's total foreign exchange reserves were $193.5 billion. Source: The World Bank, http://data.worldbank.org/indicator/FI.RES.TOTL.CD?order=wbapi_data_value_2014%20wbapi_data_value%20wbapi_data_value-last&sort=asc.

35. Apple reported intangible assets on its balance sheet of $8.8 billion (for goodwill, and acquired intangible assets), but this significantly understates the true market value of its total intangible assets as represented in its brands, patents, trademarks, logos, and designs.

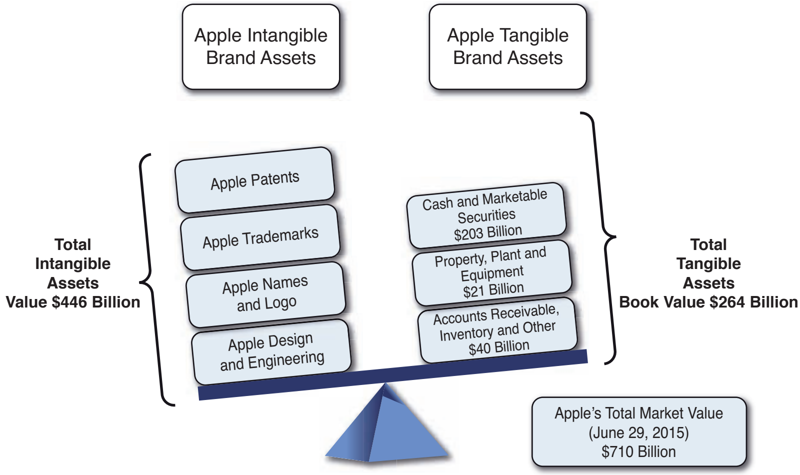

Figure 3.7 Apple's Tangible and Intangible Assets

Financial Data Source: Apple, Inc., Form 10-Q, for the quarterly period ended June 27, 2015.

For example, I estimate that I have spent more than $80,000 on Apple products since the purchase of my first two Apple Macintosh computers—in 1984, the 128k Mac, and the 512k "Fat" Mac. Thus, $80,000 is this one customer's historical lifetime value to Apple, to date—what will be my future lifetime value? This future customer stream of earnings and cash flow, multiplied by millions of Apple customers, drives the worth of Apple's intangible assets—and consequently the total worth of the Apple corporate brand.

Apple's brands and intangible assets are *market-based assets*—their value or worth to the company is driven essentially by customer purchases and transactions in the product or service market space—in comparison to other asset classes such as bonds, or real estate, or plant and equipment, or money market instruments. How can Apple grow the value of its intangible market-based assets? There are four ways:[36]

1. ***Grow** the operating profits* of the various Apple brands in the marketplace, by expanding sales volume, increasing gross margins,

36. See Rajendra K. Srivastava, Tasadduq A. Shervani, and Liam Fahey, "Market-Based Assets and Shareholder Value: A Framework for Analysis," *Journal of Marketing*, 62 (January 1998), 2–18.

and/or more efficiently spending on selling, service, and working capital (for example, inventory).

2. ***Accelerate*** *the operating profits* of the Apple brands, by stimulating earlier customer trial, earlier word of mouth, and time-to-market acceptance.
3. ***Lower the risk*** *of the operating profits* generated by the Apple brands, by strengthening brand loyalty, or making it less likely that customers will switch to other brands (increase switching costs).
4. ***Expand the customer base,*** meaning the size of the customer base and the worth of the customer base—via its long-term loyalty and willingness to pay.

The last of these growth drivers is most potent in digital marketing—the capability of digital to rapidly grow and enhance the value of the customer base. Consequently, in the new digital economy market-based assets are especially powerful drivers of total revenue and profitability because digital technology leverages the power of the customer in so many ways. For example, in the twentieth century most companies relied on investments in advertising, promotions, personal selling, and product innovation to grow the value of their corporate brands—a process that took many years to accomplish. Now add in digital marketing in the new century—especially with mobile devices and inexpensive apps—and brands can grow their market value much faster as customers, bloggers, and opinion leaders instantly download apps, engage in product trial, and share product experiences with hundreds, thousands, or millions of others, in real time.

SurveyMonkey, an online market research company started in 1999, now has 20 million customers; it is worth $2 billion. According to *Fortune* magazine, Snapchat, a photo disappearing-message app launched in 2011, now has 100 million customers and is worth $15 billion.[37] LinkedIn, an online social networking company for business professionals begun in 2003, has 200 million customers and is worth $33 billion.

37. A round of March 2015 fundraising set Snapchat's value at $15 billion, Hannah Kuchler, "SnapchatChief Outlines Plans for IPO," *Financial Times* (May 27, 2015), http://www.ft.com/intl/cms/s/0/ae478380-040c-11e5-8585-00144feabdc0.html#axzz3bKr5RUcA.

YCharts estimates that the accounting book worth of LinkedIn's total assets is $5.5 billion—this estimate represents approximately its tangible assets.[38] Therefore, LinkedIn's intangible assets are worth $27.5 billion ($33 billion minus $5.5 billion), or five times more than its tangible assets. Recall that Apple's intangible/tangible asset ratio was about two times more because it is not a pure digital brand. As you can see, the capability of intangible assets to drive the value of digital brands is much greater, in part because of digital marketing's leverage to grow the size and value of the customer base.

Market-Based Assets and Customer Lifetime Value

For most companies the most effective way to grow firm value is by growing the worth of its market-based assets—its intangible assets, based on the present and future profit contribution generated by its brands, products, and services. These streams of profit contribution are driven by customers—by their purchases, repeat purchases, word-of-mouth sharing, and customer engagement with the brand in customer-driven loyal relationships. Viewed over time, each customer stream of profit contribution is the customer's lifetime value.

Customer lifetime value is particularly salient to firms in the digital economy, especially those with revenue models built on customer investments up front that yield a steady stream of subscription revenue over time—including, for example, cloud-based services, mobile services, and SaaS (Software as a Service) business models. Wharton professor Jehoshua Eliashberg describes "CLV [as] a spin on the model used by consumer goods companies that sell higher-end razors—the firms take a loss on the initial investment, but make the money back over time through purchases of razor blades. Kodak used to sell cameras at a loss and make money from film sales."[39]

38. Usually a firms' book value estimate of total assets will include intangible assets, such as goodwill, or the acquisition value of purchased intangible assets obtained through merger and acquisition. This value is usually small relative to the total market value of a firm and its brands, unless the firm is very active in mergers and acquisitions.

39. "The Customer Lifetime Value Equation: Will It Pay Off for Tech Companies?," *Knowledge@Wharton* (December 7, 2011), http://knowledge.wharton.upenn.edu/article/the-customer-lifetime-value-equation-will-it-pay-off-for-tech-companies/.

Some customers have higher CLV than others. For example, Sprint committed to purchase $15.5 billion worth of Apple iPhones over a 4-year period based on CLV logic. Sprint CEO Dan Hesse said: "We expect that customer lifetime value for the iPhone customer will be at least 50% greater than a typical smartphone user, driven primarily by more efficient use of our network and lower churn. . . . In addition, [there is] the upside of more, new revenue [from] new fans to offset the fixed cost of our stadium, if you will, because we expect the iPhone to generate a significantly higher number of new users to Sprint."[40]

However, intense competition among wireless carries Verizon, AT&T, and T-Mobile led to substantial customer churn at Sprint. Aggressive price promotions to stanch the losses led to a death spiral of attracting price-driven buyers that ultimately failed to slow customer churn—finally culminating in layoffs and a management shakeup in 2014.

When considering customers as market-based assets, we must consider the incremental *profit* contribution of each customer, and not merely the customer's total revenue or sales. We call these profit cash flows the *Customer Contribution* (CC), which is the customer's revenue minus the cost to serve the customer (including both product cost, such as cost-of-goods-sold, service cost, and marketing cost). We estimate not only today's cash flows from these customers, but also all their future cash flows. Thus, our CLV calculations are forward looking and future driven—some customer relationships may yield cash flows in the near term and others may develop in the longer term. We must account for this time value of money in our calculations, that accelerating customer cash flows is worth more to our brand, and decelerating customer cash flows is worth less to our brand—because future customer cash flows are less valuable to us today. Finally, we must consider the risk–return relationship that is associated with investing in any given customer relationship rather than investing in other possible firm assets. This is reflected in a discount rate, that is, the weighted average cost of capital.

The new customer empowered paradigm of the digital economy implies a subtle but significant shift in orientation and emphasis for marketing expenditures and investments. Brand marketers must spend considerable money up front investing in digital customer assets—apps, websites, devices, software development—these are fixed cost investments that enable customer engagement, customer loyalty, and

40. Ibid.

customer retention. They pay off in the long run. However, these digital customer-driven investments are viewed differently from traditional advertising or promotional expenditures that finance and accounting professionals usually categorize as present-period expenses—that is, as "expenses." Website investments and app development costs involve significant capital expenditures that from an accounting perspective are considered "investments" that are amortized over time—in the United States, tax guidelines recommend amortizing software over 3 years.

Failing to make these digital customer asset investments will result in customers opting out of your brand relationship, seeking satisfaction, engagement, and excitement from more digitally savvy brands. This then is the essence of a new interpretation of customer lifetime value in the digital economy because brands must invest in digital assets to influence customer retention and invite and encourage customer-driven brand loyalty. The formula for calculating customer lifetime value is shown below in Figure 3.8.

This main part of this expression (excluding "–AC") represents the CLV for an *existing customer* already in a relationship with the brand. Customer Contribution is calculated as Customer Gross Profits minus the Cost of Customer Retention (that is, Customer Cost-To-Serve + Customer Marketing Costs). For a *new customer*, we must also subtract the Acquisition Cost (AC), that is, click-through costs, direct marketing solicitation costs, or advertising costs. As customers develop into increasingly profitable customers over time, their CLV grows. However, *if customers optout* of the brand relationship prematurely, say after a few

$$CLV = \sum_t \frac{CC_t \times r_t}{(1+i)^t} - AC$$

CLV = Customer Lifetime Value
CC = Customer Contribution
(Customer Gross Profits – Cost of Customer Retention)
AC = Acquisition Cost (for new customers)
r = Cumulative Probability of Retention in Year t
i = discount rate, or WACC, Weighted Average Cost of Capital
t = Time

Figure 3.8 Customer Lifetime Value Formula

Adapted from: Sunil Gupta, "Customer Management," *Core Curriculum: Marketing* (Harvard Business Publishing, June 30, 2014); V. Kumar, *Profitable Customer Engagement: Concept, Metrics, and Strategies* (London: Sage, 2013); and Paul D. Berger and Nada I. Nasr, "Customer Lifetime Value: Marketing Models and Applications," *Journal of Interactive Marketing* Vol. 12, No. 1 (Winter 1998), 17–30.

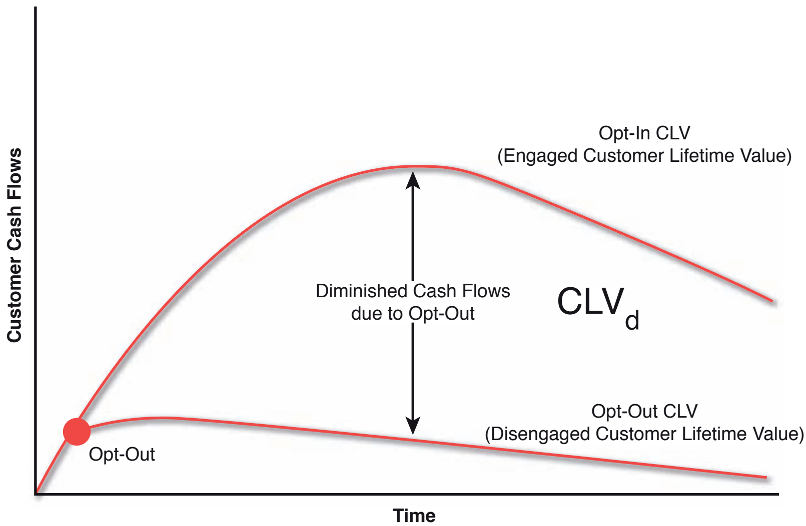

Figure 3.9 Diminished Customer Lifetime Value

years, the cumulative discounted cash flow derived from the customer relationship—its CLV—will be diminished because the customer never developed a mature and profitable customer relationship (Figure 3.9).

This lost differential in CLV, representing the difference between opt-in CLV and opt-out CLV, is *Diminished Customer Lifetime Value* (CLV_d), introduced in Chapter 2. Note, as the illustration shows, it is not assumed that no future value is achieved from customers who optout, but rather only that the potential future value is notably diminished versus the alternative path of remaining opted-in.

The BC Customer Empowerment Research Study revealed that 41% of consumers acknowledged they would be less likely to do business with a company with whom they have opted out. *How* less likely? According to the survey data, nearly half of the respondents indicated their diminished likelihood to be between 40% and 100% less likely.

Consider, for example, an online retailer like GoJeri.com, which sells affordable women's clothing targeted at young women and teens. If a representative GoJeri customer were estimated to generate annual gross profit of $75 (sales minus cost of goods), which grows over a 10-year period to $200, with a customer retention rate of 75% and discount rate of 10%, then this customer's lifetime value over a 10-year period would be $158.29 (see Table 3.1).

Table 3.1 GoJeri.com Customer: Expected Customer Retention Profiles and CLV

Year	Customer Gross Profits	Customer Marketing & Service Costs	Customer Contribution	Probability of Retention	Cumulative Probability of Retention	Discount (WACC)	Discounted Cash Flow	Cumulative Discounted Cash Flow
1	$75.00	$25.00	$50.00	75%	75%	10%	$34.09	$34.09
2	$75.00	$25.00	$50.00	75%	56%	10%	$23.24	$57.33
3	$100.00	$15.00	$85.00	75%	42%	10%	$26.94	$84.28
4	$100.00	$15.00	$85.00	75%	32%	10%	$18.37	$102.65
5	$125.00	$10.00	$115.00	75%	24%	10%	$16.94	$119.59
6	$125.00	$10.00	$115.00	75%	18%	10%	$11.55	$131.14
7	$150.00	$5.00	$145.00	75%	13%	10%	$9.93	$141.08
8	$150.00	$5.00	$145.00	75%	10%	10%	$6.77	$147.85
9	$200.00	$5.00	$195.00	75%	8%	10%	$6.21	$154.06
10	$200.00	$5.00	$195.00	75%	6%	10%	$4.23	$158.29
CLV								**$158.29**

* Existing customers, AC = 0. Reference to GoJeri.com is purely hypothetical and is used for illustration only.

However, notice the impact that growing customer retention has on CLV. If GoJeri were to raise customer retention for this average customer from 75% (center column in Table 3.1) to 85%—a difference of 10 basis points—then CLV would grow 71% to $270.42. Conversely, if this same representative GoJeri customer were to optout of the customer relationship with GoJeri after 2 years, reducing customer retention by 40 points to 35% (roughly consistent with our BC survey results that nearly half of customers who optout would be 40%–100% less likely to buy from the opt-out brand), then CLV would fall by 52% to $76.51. The diminished CLV for this customer (CLV_d) would be $81.78. Do these calculations on your own to understand the math. These different scenarios are shown in Figure 3.10.

A key insight for long-term profitability for smart firms in the digital economy is to drive customer retention and loyalty—for example, by designing-in intelligent customer utility into an app or cloud service. We see this with many "freemium"-based digital business models. Spotify, the Swedish streaming music service that has gone on to broad worldwide success—60 million active users, 15 million paying subscribers—deliberately designs its service to build in increasing loyalty and switching costs so that users don't switch to another service. Spotify starts with a freemium business model that attracts users to a free service and offers a large selection of any kind of music—more than 30 million songs. Users create their own custom playlists. But the ad-supported free model (random playback instead of user-controlled playback) eventually leads some customers to trade up to the subscription service, with an unlimited personal music library housed in the Spotify cloud for $9.99 per month.

Spotify then encourages its subscribers to build a music ecosystem with the customer at the center and Spotify as its trusty cloud-based app, with various other music brands also included in the customer's music brand consideration set portfolio. From Spotify customers can publish their songs and playlists to other Spotify "followers." They can integrate Spotify into their physical exercise routine—Spotify Running—that detects the pace at which the customer is running or exercising and then suggests song that plays at the same beat and tempo. They can link their Spotify account with music search and discovery apps such as SoundHound or Shazam—so that when Shazam hears and identifies a song being played (in a bar, at a concert, on the radio) the customer

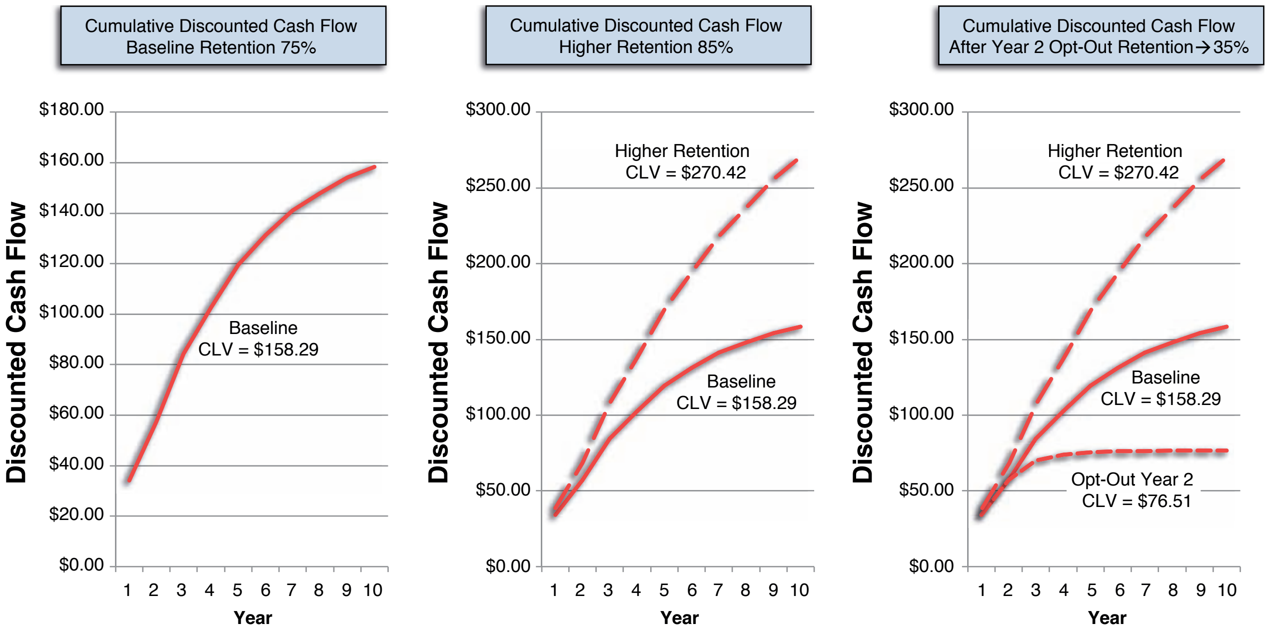

Figure 3.10 The Impact of Retention, Opt-Out on CLV

can instantly add it to his/her Spotify personal library. They can share whatever they want about their music via Facebook or Twitter.

With each subtle design add-in, Spotify is strengthening the sinews of customer-driven loyalty and increasing customer retention as Spotify becomes the center of the customer's music brand portfolio and ecosystem.

Now back to CLV. For quick back-of-the-envelope calculations, it is sometimes helpful to relax the stricter assumptions of CLV calculations by assuming that customer cash flows remain constant over time, for infinity. Doing so provides quick and intuitive insights. For example, we can quickly see the leverage of customer retention on CLV using a concept called *the Retention Multiplier* (academics sometimes call it the "margin multiple"). For the Retention Multiplier we make three assumptions: (1) that customer cash flows remain constant through infinity. Thus CC remains constant over time—such as Spotify's $9.99 monthly subscription fee-based model; (2) that customer retention rate (*r*) remains constant over time; and (3) that the discount rate (*i*) used to convert cash flows in future periods into present-day terms remains constant over time.

When we make these assumptions the CLV formula can be simplified to what is shown in Figure 3.11.

$$CLV_i = CC \times \underbrace{\frac{r}{(1 + i - r)}}_{\textit{Retention Multiplier}} - AC$$

CLV_i = Customer Lifetime Value (infinite)
AC = Acquisition Cost

Assuming:
Infinite Customer Life ($t \rightarrow \infty$)
Constant Customer Contribution (CC)
Constant Probability of Retention (r)
Constant WACC, Weighted Average Cost of Capital (i)

Figure 3.11 Infinite CLV Formula Using Retention Multiplier

Adapted from: Sunil Gupta, "Customer Management," *Core Curriculum: Marketing* (Harvard Business Publishing, June 30, 2014); V. Kumar, *Profitable Customer Engagement: Concept, Metrics, and Strategies* (London: Sage, 2013); and Paul D. Berger and Nada I. Nasr, "Customer Lifetime Value: Marketing Models and Applications," *Journal of Interactive Marketing* Vol. 12, No. 1 (Winter 1998), 17–30.

For example, if GoJeri's CMO now wanted to do a quick comparison across customer cohorts, he/she could quickly calculate comparative CLV for each cohort as follows (see Table 3.2):

Table 3.2 GoJeri.com: CLV Using the Retention Multiplier

Customer Cohort	Annual Customer Contribution	Annual Retention	Discount (WACC)	Retention Multiplier	Customer Lifetime Value	Expected Customer Lifetime
6	$96.00	92%	10%	5.11	$490.67	12.5
2	$330.00	65%	10%	1.44	$476.67	2.9
7	$75.00	95%	10%	6.33	$475.00	20.0
3	$75.00	75%	10%	2.14	$160.71	4.0
5	$32.00	85%	10%	3.40	$108.80	6.7
1	$125.00	50%	10%	0.83	$104.17	2.0
4	$150.00	33%	10%	0.43	$64.29	1.5

* Existing customers, AC = 0. Reference to GoJeri.com is purely hypothetical and is used for illustration only.

I have ranked customer cohorts here by their CLV. Focus first on cohort 2. Note that the CLV for cohort 2 is $476.67, calculated as $330.00 in Annual Customer Contribution times 1.44, the Retention Multiplier. Looking at GoJeri's seven customer cohorts, it is clear that cohort 2 has the highest Annual Customer Contribution ($330.00), but it has the second highest CLV at $476.67. Its CLV is second to cohort 6 at $490.67, despite the fact that cohort 6 customers have only a $96.00 Annual Customer Contribution. The reason cohort 6 customers are so valuable is because their Retention Multiplier is high (5.11), a consequence of a high Annual Retention rate of 92%. The same is true of cohort 7, which has a modest $75.00 Annual Customer Contribution, but a high 6.33 Retention Multiplier because of its 95% Annual Retention rate.

Another way of considering the impact of customer retention is through *the customer's expected lifetime,* shown to the far right of Table 3.2. Of GoJeri's three most valuable customer cohorts, two (Cohorts 6 and 7) have high Expected Customer Lifetimes: Cohort 6 at 12.5 years, and Cohort 7 at 20 years. Expected Customer Lifetime is calculated simply as follows (see Figure 3.12):

$$\text{Expected Customer Lifetime} = \frac{100\%}{100\% - r}$$

r = Rate of Retention

Figure 3.12 Expected Customer Lifetime Formula

Source: Sunil Gupta, "Customer Management," *Core Curriculum: Marketing* (Harvard Business Publishing, June 30, 2014); V. Kumar, *Profitable Customer Engagement: Concept, Metrics, and Strategies* (London: Sage, 2013).

Ryan Allis, CEO of iContact, a cloud-based email and social media marketing provider, showed how quick back-of-the-envelop CLV calculations were an essential ingredient in raising capital in the early phases of his startup (see Box 3.2).

Box 3.2: Customer Lifetime Value at iContact

I was having lunch with a friend of mine named Jud Bowman. Jud was the co-founder of Motricity, a company that raised $350M in venture capital before going public in 2010. Jud was asking me why I hadn't raised venture capital for iContact. I told him I was considering it. He asked me two critical questions to determine whether we were ready to raise outside capital:

- What is the lifetime value of an average customer?
- How much do you spend to acquire an average customer?

As iContact operated on a subscription model, Jud told me that I could estimate the lifetime value of an average customer by taking the monthly average revenue per user (ARPU) and multiplying it by the average number of months a customer stayed. I knew the average monthly revenue per customer was $45 at the time. I also knew our monthly average churn rate was about 3%, meaning an average customer stayed with us 1/0.03 or about 33 months. So to get an estimate of the lifetime value we simply multiplied $45 and 33 to get about $1500.

ARPU × Months of Life Before Cancelling = Lifetime Value

Then to calculate how much we spent to acquire an average customer, Jud told me to simply take what we spent per month on advertising and divide that figure by the number of new customers we acquired in a month. At the time, we were spending about $100,000 per month on advertising to acquire 330 customers per month. So our Customer Acquisition Cost was about $300.

Advertising Spend/Customers Acquired from Advertising = Customer Acquisition Cost

There it was. We knew we spent $300 up front to acquire a revenue stream of $1500 over about three years. This was [a] very profitable transaction to make over and over. . . . Based on this relatively simple math we went out and raised our first $500,000 in investment capital.

Source: Ryan Allis, "How To Be Startup CEO," The Startup Guide: Creating a Better World Through Entrepreneurship, http://startupguide.com/entrepreneurship/startup-ceo/. Used with permission. Thanks to Eric Jorgenson of Evergreen for highlighting this story.

But what happens with customer opt-out when customer loyalty and retention diminish, and prematurely customers optout from the customer relationship. For example, let's focus on our most valuable cohort—cohort 6 that generates $96.00 in Annual Customer Contribution—and simulate the impact of a sudden decline in customer retention on this cohort, assuming that CC remains the same over time (see Table 3.3). You can see that a decline in retention by just 12 basis points (from 92% to 80%) causes CLV to fall by nearly half, even as Expected Customer Lifetime falls by 60%, from 12.5 years to 5 years. If cohort 6 customers were to optout, simulated here with various declines in retention with the lowest a 20% retention rate, their CLV would be a fraction of their original CLV, at just $21.33. And their Expected Customer Lifetime would have fallen to just 1.3 years.

Worksheets 3.1 and 3.2 enable you to set up your own CLV and Expected Customer Lifetime calculations using a spreadsheet.

Table 3.3 GoJeri.com: The Impact of Declining Loyalty and Opt-Out

Customer Cohort	Annual Customer Contribution	Annual Retention	Discount (WACC)	Retention Multiplier	Customer Lifetime Value		Expected Customer Lifetime
6	$96.00	92%	10%	5.11	$490.67		12.5
6	$96.00	80%	10%	2.67	$256.00		5.0
6	$96.00	70%	10%	1.75	$168.00		3.3
6	$96.00	60%	10%	1.20	$115.20		2.5
6	$96.00	50%	10%	0.83	$80.00		2.0
6	$96.00	40%	10%	0.57	$54.86		1.7
6	$96.00	20%	10%	0.22	$21.33		1.3

* Existing customers, AC = 0. Reference to GoJeri.com is purely hypothetical and is used for illustration only.

Worksheet 3.1 Calculating Customer Lifetime Value Worksheet

Worksheet 3.1	Customer Lifetime Value Worksheet Template							
Year	Customer Gross Profits	Customer Marketing & Service Costs	Customer Contribution	Probability of Retention	Cumulative Probability of Retention	Discount (WACC)	Discounted Cash Flow	Cumulative Discounted Cash Flow
A	B	C	D	E	F	G	H	I
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								
CLV								
Calculations	User Input	User Input	D=B–C	User Input	$F=F_{-1}*E$	User Input		$I=I_{-1}+H$

H=(D*F)/(1+G)^A

Worksheet 3.2 Expected Customer Lifetime Using the Retention Multiplier Worksheet Template

Worksheet 3.2	Expected Customer Lifetime Using the Retention Multiplier Worksheet Template						
A	B	C	D	E	F		G
Customer Cohort	Annual Customer Contribution	Annual Retention	Discount (WACC)	Retention Multiplier	Customer Lifetime Value		Expected Customer Lifetime
User Input	User Input	User Input	User Input		F=B*E		G=1/(1–C)

E=C/(1+D–C)

CLV and Customer Brand Equity

The value of the brand in the marketplace is driven by the value of its customer cash flows—from both current and future customers, plus the indirect influence of customers on other customers through word-of-mouth influence, referrals. This aggregate measure of CLV across all customers is *Customer Brand Equity;* it is "the sum of the lifetime values of the firm's customers," said Customer Equity pioneers Katherine Lemon,

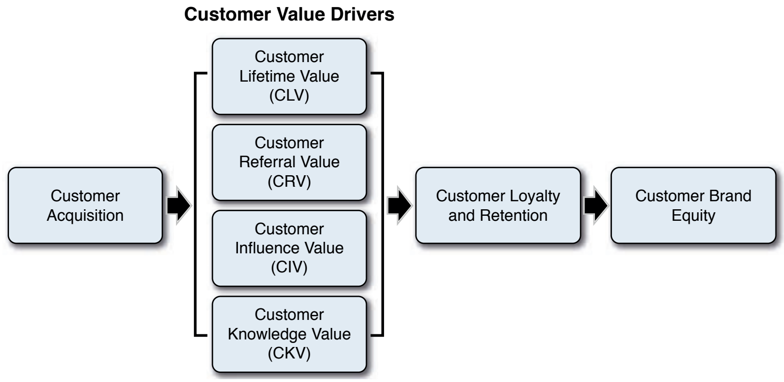

Figure 3.13 Linking Customer Lifetime Value with Customer Brand Equity

Adapted from: V. Kumar, *Profitable Customer* Engagement (London, UK: Sage, 2013); Sunil Gupta, "Customer Management," *Core Curriculum: Marketing* (Harvard Business Publishing, June 30, 2014); and Roland T. Rust, Valarie A. Zeithaml, and Katherine N. Lemon, "Customer-Centered Brand Management," *Harvard Business Review* 82, Issue 9 (September 2004), 8.

Roland Rust and Valarie Zeithaml.[41] Sunil Gupta of Harvard Business School said: "Customer equity . . . is a firm-lev el metric that summarizes the entire customer base. It represents the total CLV across all existing and future customers. Because customers are the source of profit for a company, customer equity is a good proxy for company value."[42]

Thus, growing the value of the brand rests on four pillars (see Figure 3.13).

Customer Acquisition: Expand the size of the customer base through increasing marketing investment, by better segmentation—targeting higher-value customers and accelerating purchase through discounts and short-term incentives. For example, Microsoft's share of voice in online search is high as it promotes Bing in an attempt to take share from Google.

Customer Value Drivers: There are four Customer Value Drivers that grow Customer Brand Equity:[43]

- ***Customer Lifetime Value (CLV):*** This central driver is the net present value of future cash flows from a customer over his/her

41. Roland T. Rust, Valaarie A. Zeithaml, and Katherine N. Lemon, "Customer-Centered Brand Management," *Harvard Business Review* 82(9): 110–8, 138.
42. Sunil Gupta, "Customer Management," *Core Curriculum: Marketing* (Harvard Business Publishing, June 30, 2014), Section 2.6.
43. The discussion of these four customer value drivers is based on V. Kumar, *Profitable Customer Engagement* (London, UK: Sage, 2013); see Chapter 2, and Figure 2.1.

lifetime relationship with the brand. CLV is grown by increasing customer cash flows through premium prices, trading up, cross-brand purchases, or greater customer usage and purchase frequency. Or customer cash flows can be accelerated through trial incentives or social media programs to encourage early adoption.

- ***Customer Referral Value (CRV):*** This is the monetary value associated with future profits derived by the customer referring other prospective customers to the brand. "CRV is the quantifiable measure of the type, quantity, and effectiveness of referrals or recommendations that an individual customer provides to others with regard to a particular product [or brand.] CRV of a customer is the monetary value associated with the future profits given by each referred prospect, discounted to the present value,"[44] said customer relationship scholar V. Kumar. This is an indirect influence on Customer Brand Equity.
- ***Customer Influence Value (CIV):*** CIV is the value a current customer brings to a firm by influencing current and prospective customers in a social media setting. Such activities can include persuasion and conversion of prospects to customers, or reduce buyer remorse (to reduce defections), or encourage trade-up or increased share of wallet of existing customers. This is an indirect influence on Customer Brand Equity.
- ***Customer Knowledge Value (CKV):*** CKV is the value a current customer contributes to the brand by offering feedback, input, and suggestions for product or service improvement and enhancement. "Highly engaged customers . . . [provide] great value to a company as firms gather knowledge about what their customers understand about their product and/or service offerings," said Kumar. "This feedback can play a vital role in a company's new product development processes. If the companies listen to their customers, they can reduce the failure rate of products and also improve the service quality."[45] This is an indirect influence on Customer Brand Equity.

Customer Loyalty and Retention: As we discussed earlier, customer loyalty and retention directly influence Customer Brand Equity by

44. Kumar, *Profitable Customer Engagement,* 32.
45. Ibid., 38.

reducing the variance in customer cash flows, including for instance the use of subscription or contract programs where customers engage with the brand in a customer-driven relationship, like a retainer relationship paid with a periodic fee. In addition, methods such as Reichheld's Net Promoter Score ("How likely is that you would recommend [brand X] to a friend or colleague?") provide an early warning for customers who may be *Detractors* (are unhappy with the company, may defect and share negative word of mouth with others), *Passives* who may stay in the short-term but defect in the future, and *Promoters* who are delighted with and loyal to the brand and likely to share positive word of mouth.

Conclusion

In this chapter, we've seen how customer retention and loyalty can grow the value of the brand as a market-based asset. However, the digital economy is reframing the way loyalty works—essentially because customers are more active, more engaged, and often more assertive in the brand relationship. Consequently, they are *reversing* the direction of brand loyalty—from a brand-driven construct to a *customer-driven* construct. Along the way they threaten to significantly diminish CLV via prematurely opting out of the relationship.

Meanwhile, as we've also illustrated thus far, it is our behavior as marketers that is driving our customers farther away from us, by overdoing it with too many offers, of too little relevance individually. And when we get it wrong, we can cut off a line of communication between our all-important customers and our brand voice, impacting our ability to foster that loyalty that we so desperately seek. The old ways simply no longer cut it.

Brands that are focused on driving revenue, we assert, must now also be focused on recalibrating on the new paradigm of customer-driven loyalty, not the old business-driven model. Digital customer relationships give us a whole host of new capabilities for resonating with consumers and establishing a new solid footing for interacting and engaging on consumers' terms.

4

Customer-Managed Experience

"Customer experience is the most pressing mandate for marketers, the top area of marketing technology investment in 2014, and it will lead innovation spending for 2015. This last part, in particular, should cause you to sit up straight. Why? Because, as competition and buyer empowerment compounds, customer experience itself is proving to be the only truly durable competitive advantage," said Jake Sorofman of Gartner. He reported on a "recent Gartner survey . . . on the role of marketing in customer experience [which] found that, by 2016, 89% of companies expect to compete mostly on the basis of customer experience, versus 36% four years ago. According to the same Gartner research, fewer than half of companies see their customer experience capabilities as superior to their peers—but two-thirds expect these capabilities to be industry leading or much more successful than their peers within five years."[1]

Above all, this book is a clarion call to embrace a new paradigm for how marketers go about marketing to customers. In the age of empowered customers, customers, not marketers, manage their own customer experience, facilitated by digital customer relationships—a new standard for twenty-first century customer-driven brand loyalty—that leverage powerful and intuitive online customer experience tools. Increasingly customers seek more control over their customer relationships with brands. We see this in the explosive emergence of ad-blocking software—new entrants such as 1Blocker, Adblock Mobile,

1. Jake Sorofman, "Gartner Surveys Confirm Customer Experience Is the New Battlefield," *Gartner for Marketing Leaders*, October 23, 2014, http://blogs.gartner.com/jake-sorofman/gartner-surveys-confirm-customer-experience-new-battlefield/.

Crystal, VPN in Touch, and Purify Blocker achieved hundreds of thousands of downloads in their first week of availability in late 2015 as they shot to the top of app store charts.[2] We see it in the growing trend toward customization and build-your-own products using online customer-customization tools—for example, MTailor's custom men's shirting using a mobile app, Qcut offering 400 sizes of jeans for women, fitness devices like Jawbone Up, and smart watches like the Apple Watch that allow you to choose and adapt your watch faces, watch apps, and watch straps.[3] Customers embrace and increasingly expect their brands to offer the same capabilities and tools to facilitate intuitive customer design, customer sharing, customer organizing, customer management, and customer control.

Still, the most powerful tool of all is opt-out—opting out of customer relationships that don't offer a satisfying, or even delighting digital customer experience. You must empower customers to manage their experience with your brand, to manage the relationship with your brand—including to opt-up, opt-down, opt-in, or opt-out on various marketing dimensions—to effortlessly and intuitively define the most comfortable brand relationship individually and personally. Otherwise, they will seize power anyway and opt-out entirely from your brand.

In this chapter, we explore how it is that empowered customers direct, drive, manage, and determine the dynamics of the customer–brand relationship—defining what customer-managed experience really means and how brands can market more effectively by aligning with customer experience expectations. To illustrate, New Balance offers a line of sneakers, the NB1, that enables customers to design their own sneakers, virtually from scratch—to "disrupt the norm, reinvent the future, and create shoes like no other." Using a smartly intuitive online template, consumers can build their own shoe design, including color, fabric, and design options for the shoe's tongue, collar, toe, saddle, heel, base accent, heel tab, molded logo, speed lace, laces, lining, tongue top lace keeper, sole—and, most important, options to place personal inscriptions on the

2. Jack Marshall, "Apple Propels an Ad-Blocking Cottage Industry," *The Wall Street Journal*, September 24, 2015, www.wsj.com/articles/propelled-by-apple-ad-blocking-cottage-industry-emerges-1443115929.

3. See Stephen Nemeth, "Trends for 2015: A Culture of Customization," *J. Walter Thompson Inside*, January 6, 2015, www.jwtinside.com/trends-2015-culture-customization/.

left and right outward-facing tongue, on the heel, and so on. Though it sounds complicated in print, in practice it is intuitive and easy, and fascinating to explore dimensions about shoe technology that neither you nor I had thought of. If the process is illuminating, the end-product is fun and delightful—completely the customer's creation, an expression of his or her identity that can be shared socially with friends, using the NB1 platform or any social platform like Instagram.

Here are some comments from two style editors that gave it a try:

> *I've always admired those people who can make a pair of sneakers look cool with anything. So I was totally up for the challenge of designing my own NB pair. I found the process very pleasant, and I knew right away I wanted a bold color. Once I selected burnt orange, I debated a bit on accent colors, but since just saying the word "chambray" brings me joy, it was a no brainer to go with the fun blue hue. I did my initials on the back (I'm not as clever as Alex, see below), and then I was ready to test them out on a drink date with my fiancé . . . Overall, I'd give the experience—from the design process to my photo shoot—a 10.*[4]

> *When it came to designing my own shoes, I took the easiest route possible and stuck with two colors: red for the base, light gray as the accent. I'm really pleased with how my sneaks turned out. My favorite part is the embroidery on the back. The limited space automatically narrows down the options for what you can put there—which is a plus if you're indecisive like me. I went with a childhood nickname (which also happens to be my Twitter handle, giving "follow me" a whole new meaning for anyone working out behind me).*[5]

Two different customers, taking advantage of an "endless aisle" brand strategy, with no constraints on shelf space or inventory availability. Ultimately what makes it successful is that it is customer centric, customer driven, customer managed—but all facilitated by online brand tools, to create a uniquely satisfying and delighting brand experience.

4. "We Tried It: Customizing Our Own New Balance Sneakers," *StyleWatch, People*, January 23, 2014, http://stylenews.peoplestylewatch.com/2014/01/23/customized-sneakers-we-tried-it-editors-test/.

5. Ibid.

Let's begin with a definition of the central construct of this chapter, indeed of the book: Customer-Managed Experience (CMEx):

Customer-Managed Experience (CMEx) is a customer centric strategic marketing paradigm in which customers drive, direct, control, and manage their customer experience with brands they choose by using brand-designed touchpoints and decision tools to facilitate engagement, customization and choice.

A graphic portrayal of the CMEx paradigm, the CMEx Pyramid, is shown in Figure 4.1. The model suggests that CMEx is composed of four essential constructs: (1) Customer Centricity, referring to the contextual priorities that determine the brand's interaction with the customer; (2) Customer Experience, the various ways in which the customer and brand intersect to facilitate a favorable customer experience; (3) Customer Engagement, in which the customer engages in brand-relevant activities that influence both the customer and others in the marketplace; and (4) Customer-Managed, in which customers seek to design, choose, govern, and control how they interact with brands they choose—leading to brand relationships, and hence customer-managed relationships. Let's begin with Customer Centricity.

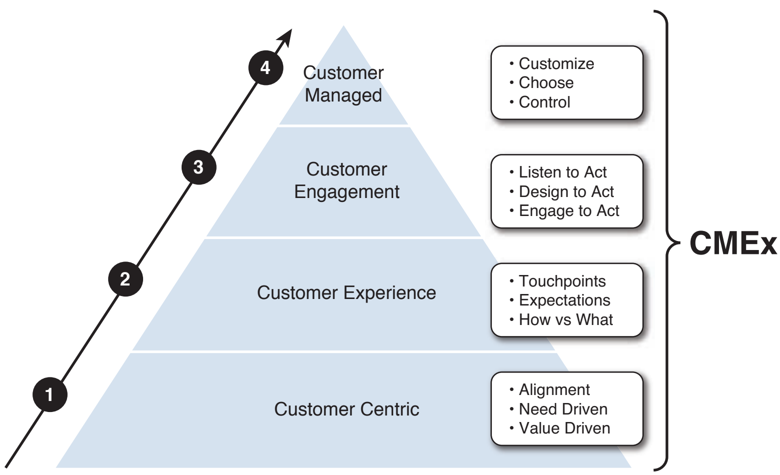

Figure 4.1 Customer-Managed Experience (CMEx)

Customer Centricity: Foundation of CMEx

A lot has been written about customer centricity in the past decade. Wharton professor Peter Fader defined "Customer centricity [as] a strategy that aligns a company's development and delivery of its products and services with the current and future needs of a select set of customers in order to maximize their long-term financial value to the firm."[6] Customer centricity is a core construct of CMEx and is clearly essential to successful strategic brand performance in the digital economy. Still, even 10 years on many brands are rooted in old branding paradigms—it takes time to effect change in a large organization, especially if the leadership team grew up in old economy paradigms of marketing and management. Writing in 2012, Fader cited the Nordstrom brand, with a brilliant reputation in customer service, as a good example of a company vulnerable to the customer-centric forces of the new economy:

> *On one level, Nordstrom seems to very deeply understand the value of its customers—yet on another level, they still fall short of customer-centric success. Yes, it is true that Nordstrom will take back used tires that it didn't even sell in the first place. Yes, it is true that Nordstrom clerks will walk around the counter to hand you your bag to save you the effort of lifting your arms. And yes, it is true that Nordstrom executives stress the importance of customer service possibly more than any other executives at any other retailer on the planet. Which is all fine and good.*

He continued:

> *But as a regular Nordstrom shopper, I wonder how much they know about me—and why they don't try to have a conversation that reflects my long and deep history of transactions with them. Individual sales people remember me and my previous purchases in their department, but this information doesn't seem to be tied together into a single comprehensive profile of me. In other words, they don't know what I am worth. I am nameless. Faceless. I am "the customer"—one of millions, whom they treat well in the store, just like all the rest. I wonder if Nordstrom as a company has any idea how often I shop there or what I buy when I do.*

6. Fader, Peter (2012). *Customer Centricity: Focus on the Right Customers for Strategic Advantage* (Wharton Executive Essentials) (Kindle Locations 309-311). Wharton Digital Press. Kindle Edition.

> *Would they know enough about me to decide how much my lifetime value would be impacted if they did (or didn't) take back a set of tires that I wished to return there? I doubt it.*[7]

Thus, achieving customer centricity requires that the brand achieve on three dimensions:

1. **Alignment:** The brand must design its knowledge center and touchpoints to be in total alignment with customers, knowing their identity—how to address them, their geography, their lifestyle; their history with the brand—purchases, complaints, inquiries; their preferences—for messaging, product design, customer research, billing and payment, and so on.
2. **Need Driven:** The brand must design its products and services to be customer needs driven, listening to customers, sensing customer needs, anticipating customer desires and wants before customers can articulate themselves—to facilitate surprising satisfaction and delight.
3. **Value Driven:** The brand must understand which customers are valuable, how they are valuable—as purchasers, loyalists, opinion leaders, influencers; and must understand the drivers of this customer's value—of retention and customer contribution, over the lifetime of the customer.

Customer Experience: Shaping CMEx

A brand must be not only customer centric, but also *experience driven* to enable customers to achieve satisfying and delightful customer experiences. Customer experience is the raison d'être of the digital economy, but is often forgotten as brands compete with each other to deliver ever higher levels of product performance. This is the central thesis behind Harvard Business School professor Clayton Christensen's disruptive innovation hypothesis—shown in electronics products brands such as IBM, HP, or Fujitsu who historically overachieved on product feature innovation while

7. Fader, Peter (2012). *Customer Centricity: Focus on the Right Customers for Strategic Advantage* (Wharton Executive Essentials) (Kindle Locations 245-254). Wharton Digital Press. Kindle Edition.

leaving a competitive opening for simpler and cheaper brands such as Dell or Lenovo.

Customer experience is the perceptual and subjective cumulative response customers have to any direct or indirect contact with a brand, its products and services, partners, customers, opinion leaders, employees, or other channels.[8] In a seminal article in *Harvard Business Review* Christopher Meyer and Andre Schwager quoted the results of a Bain & Company survey of the customers of 362 companies: "Only 8% of [customers] described their experience as 'superior,' yet 80% of the companies surveyed believe that the experience they have been providing is indeed superior." Many companies focus on measuring customer satisfaction, often using a Net Promoter Score—"How likely is it that *you would recommend* [company X] to a friend or colleague?" but fail to diagnose the deeper dimensions of the customer's experience with the brand.

"The secret to a good experience isn't the multiplicity of features on offer," said Meyer and Schwager. "Microsoft Windows, which is rich in features, may provide what a corporate IT director considers a positive experience, but many home users prefer Apple's Macintosh operating system, which offers fewer features and configuration options. A customer's experience with an Apple device begins well before the purchaser turns it on—in the case of the iPod [Touch], perhaps with the dancing silhouettes in the TV advertisements. The origami-like (and recyclable) packaging enfolds the iPod as though it were a Fabergé egg made for a czar. A small sticker, 'Designed in California, Made in China,' communicates the message that Apple is firmly in charge but also interested in keeping costs down. Even Windows users appreciate the device's intuitive, Mac-like feel and find that downloading tracks from iTunes is easier than buying a CD on Amazon. Every Apple product is designed with the overarching purpose of making the time one spends with Apple an enjoyable experience."[9]

8. See Christopher Meyer and Andre Schwager, "Understanding Customer Experience," *Harvard Business Review*, February 2007, https://hbr.org/2007/02/understanding-customer-experience. Also Partha Iyengar, Ray Valdes, and Gene Phifer, "Leverage a Customer Value Chain for Better Customer Experience," *Gartner,* June 1, 2015, www.gartner.com/doc/3066618/leverage-customer-value-chain-better.

9. Ibid.

Thus, achieving satisfying and delightful customer experience requires that the brand achieve on three dimensions:

1. **Manage Touchpoints:** The brand must understand and influence the most important customer touchpoints—brand touchpoints, partner touchpoints, customer context touchpoints (where and how the customer interacts with the brand), and social touchpoints (friends, social media, and so on). "The most common [customer experience] failure that customers experience is attributed to poor response times. Customers point the finger at poorly trained employees or feel that an employee was not empowered to help solve an issue," said Paige O'Neill, CMO of customer experience thought leader SDL.[10]
2. **Manage Expectations:** Customer expectations are antecedents of customer satisfaction and delight, discussed in Chapter 3, "The New Look of Loyalty." The brand must understand customer expectations, and understand the influences on customer expectations—from the customer's previous encounters with the brand (for example, customer's legendary poor experience with cable TV and Internet installers), or from competitors or innovators in the digital economy (for example, Uber in innovative ride sharing).
3. **Manage "How" rather than "What":** Focus on how products, services, advice, support, and claims resolution are provided, not merely what is provided. Apple is one of the few, perhaps the only computer company to be successful in store retailing. One reason is that its employees are extremely well scripted in how to handle incoming customers, customer inquiries, transaction processing, complaints, and so on. There is a big focus on "how" customers experience Apple in the retail store.

Customer Engagement: Activating CMEx

There is confusion among some marketing professionals that customer engagement is the same thing as customer experience. Customer engagement in their mind is a representation of how interested and

10. Kristina Knight, "Expert: How Customer Experience Fails Impact Brands," *BizReport*, June 10, 2015, www.bizreport.com/2015/06/expert-how-customer-experience-fails-impact-brands.html.

psychologically invested customers feel in the brand—their feelings and emotions about the brand, that higher engagement means more brand commitment. Some define customer engagement as what the brand does to increase customer loyalty. However, these generalizations completely miss the *conative* dimensions of customer engagement—of what the customer *does,* the *actions* he/she takes when interacting or experiencing the brand. According to Epsilon President Andy Frawley, author of *Igniting Customer Connections,* "*customer experience* is the emotional connection a customer has with a brand. *[Customer] Engagement,* on the other hand, means '*actions that the consumer can take include buying, posting, tweeting, liking, following, referring, and more.*' "[11]

McKinsey consultants said: "customer *engagement* . . . should not be confused with the customer *experience*; engagement goes beyond managing the experience at touch points to include all the ways companies motivate customers to invest in an ongoing relationship with a product or brand."[12] In fact, customer engagement is a two-way street. (1) Customers can spontaneously engage with the brand, or about the brand, in activities, actions, or social conversations and social media with others. Or, (2) brands can facilitate ways for customers to do more things with the brand, or about the brand, to increase the number and quality of engaged moments with the brand.

For example, Société de Transport de Montréal (STM) developed an app that uses customer geolocation and real-time analytics to track individual customer transit behaviors, and then update customers with travel information and send them relevant promotional offers to businesses on their routes. To illustrate,

> *Let's say you're heading home from work on a Friday afternoon. Because you swiped your transit card at the beginning of the trip, STM knows you are on-board. Shortly after you get on, you receive an alert on your smartphone that your home station is closed for elevator repairs and that you should take the suggested alternate route instead. Further*

11. Bob Thompson, "Customer Experience vs. Customer Engagement—A Distinction Without a Difference?" *CustomerThink*, November 7, 2014, http://customerthink.com/customer-experience-vs-customer-engagement-a-distinction-without-a-difference/.

12. Tom French, Laura LaBerge, and Paul Magill, "Five 'No Regrets' Moves for Superior Customer Engagement," *McKinsey Quarterly* (July 2012), www.mckinsey.com/insights/marketing_sales/five_no_regrets_moves_for_superior_customer_engagement.

into your trip, another alert informs you that a famous fish market near the alternate destination has a special this evening: 50 percent off oysters. Because you opted to receive alerts on retail, restaurant, sports and entertainment offers, and you also provided the system with your preferences, STM "knows" that fresh seafood would likely be a great way to kick off your weekend.[13]

Here's another simple example of increasing customer engagement with the brand by creating a mobile app—increasing the ease, quality, and frequency of interactions with the brand. The new goMoney mobile app of Australia and New Zealand Banking Group Ltd (ANZ) lets customers quickly check balances, transfer money, or pay bills without having to punch in all their account details. The app is designed to be used without instructions, and everything can be accomplished with one hand.[14]

Coop@home, a subsidiary of a large Swiss grocery chain, developed an in-store mobile promotion at a large Coop store located just above the main commuter train station in Zurich. While shopping in the store, shoppers would see product displays promoting products that would be difficult to handle by train—wine, large bags of pet food, multipack drinks—and invited shoppers to order them for immediate home delivery by scanning the products' barcodes on their smartphones. These same items are higher margin items, which increases the customer value of these digital customers.[15]

Thus, raising customer engagement requires that the brand achieve on three conative dimensions focused on action:

1. **Listen to Act:** The brand must listen to how customers interact with the brand in social media conversations and social forums—and where appropriate intervene. Lenovo listens to what consumers are saying on social media, constantly monitoring the pulse of conversations about product or service questions, issues, or preferences. Data scientists at Lenovo then analyze the unstructured social media data to discover new consumer trends and insights—like color preferences for laptops, which then inform

13. Laura Gibbons Paul, "Customer Engagement: Best of the Best," *Forbes Insights*, January 2015, 6.

14. Ibid., 8.

15. Ibid., 10.

product development. "It takes the guesswork out of product development, so customers are getting products that are far more relevant and useful," said Rod Strother of Lenovo.[16] McKinsey consultants summarized:

> *Companies should establish listening centers that monitor what is being said about their organizations, products, and services on social media, blogs, and other online forums. Such monitoring should be hardwired into the business to shorten response times during real and potential crises, complement internal metrics and traditional tracking research on brand performance, feed consumer feedback into the product-development process, and serve as a platform for testing customer reactions.*[17]

2. **Design to Act:** Smart brands in the digital economy are not only reacting to customers through listening and intervention, but also by proactively designing customer engagement. A key benefit of designing engagement is that it raises customer involvement—especially in low-involvement categories, such as many high-frequency consumer goods, and thus keep customers interested in the brand, sustains brand awareness, and influences customer retention and loyalty. We cited examples of these earlier, such as the Doritos Crash The Super Bowl competition that encourages everyday Doritos customers to create UGC (user-generated content)—to create their own Doritos ads, the winners of which will be featured in Super Bowl commercials. Other brands do this well, such as Legos, and Hasbro—we will discuss these further in Chapter 5, "Managing Moments of Truth and Opt-Out."
3. **Engage to Act:** In addition to listening, the brand must adroitly join into customer conversations or activities, and engage with customers in conversation, in chat, by email, by Twitter, or Instagram and other social media channels offering tips, solutions, advice—referring customers to online links, offers, or blogs that will be helpful in stimulating a solution. But the brand

16. Ibid., 7.
17. Tom French, Laura LaBerge, and Paul Magill, "Five 'No Regrets' Moves for Superior Customer Engagement," *McKinsey Quarterly* (July 2012), www.mckinsey.com/insights/marketing_sales/five_no_regrets_moves_for_superior_customer_engagement.

must not merely act and react, but instead proactively, positively, and creatively stimulate customers to act and actively engage with the brand. We cited examples in earlier chapters of companies that have done this well—the Oreos cookie tweet during the middle of the Super Bowl after the lights went out in the stadium—"you can still dunk your Oreo." AT&T monitors social media for complaints about dropped calls to identify weak spots in its data coverage—they should offer customers a coupon toward another service to say "thanks for letting us know, we're on it."

Customer Managed: Enabling Customers to Manage CMEx

Completing the CMEx model is Customer Managed. The point of empowering customers with digital tools and capabilities—apps, websites, calculators, organizers, and so on—is to enable customers to design, lead, and determine their own relationships with the brands they choose. For example, Customer Managed means that a brand enables the customer to control, govern, or specify access to personal information and brand transactions, and to the quantity and type of brand messaging and brand interactions the customer prefers. Customers own their own personal information including their profile, transaction history, location history, browsing history, financial information, privacy preferences, and brand messaging preferences—and determine to what extent they allow the brand to access and use this personal information.[18]

Marc Bienoff, CEO of salesforce.com, framed the debate about customers and brands in a compelling way, as *"the internet of customers,"* as customers become the fulcrum on which successful businesses revolve. He said: "We need to reassess how we connect to our customers in a whole new way. Some companies pivot to their shareholders or partners. We pivot to our customers. Pivot to your customers. That is what the new world is about."[19]

18. Adapted from "Customer-Managed Relationship (CMR) Definition," *TechTarget*, http://searchcrm.techtarget.com/definition/customer-managed-relationship.

19. Dateme Tamuno, "Customer Managed Relationships (CMR), A Rebranding of CRM or Just a Philosophical Change?" *CustomerThink*, January 29, 2015, http://customerthink.com/customer-managed-relationships-cmr-a-rebranding-of-crm-or-just-a-philosophical-change/.

Over a decade ago Seth Godin wrote a blog entitled "CRM is dead," in which he cited how Disney Destination's Marketing Division had a department called "Customer-Managed Relationships (CMR)." One of the Disney employees was quoted as saying: "CMR is our Vision of CRM—just a slight nuance regarding our philosophy that our guests invite us into their lives and ultimately manage our presence/relationship with them."[20]

"In the case of Disney Destinations, adopting a CMR approach or philosophy, entailed providing their customers an opportunity to control their own experience, through personalization tools, that comprises of identifying locations, processes, means of travel and length of stay, all at their own time and convenience," said CustomerThink author Dateme Tamuno. "Customers want a collaborative and free environment, where they control how they relate with you. They want to choose how they contact you, how they choose how and when a product is delivered."[21]

Today Disney's efforts have matured into a full-blown CMEx system called Disney MagicBand, including an investment of $1 billion to build the supporting digital system. For example, Wired.com captured the experience of the MagicBand:

"[At Disney World if] you're wearing your Disney MagicBand and you've made a reservation, a host will greet you at the drawbridge and already know your name—Welcome Mr. Tanner! She'll be followed by another smiling person—Sit anywhere you like! Neither will mention that, by some mysterious power, your food will find you."

> *"It's like magic!" a woman says to her family as they sit. 'How do they find our table?' The dining hall, inspired by Beauty and the Beast, features Baroque details but feels like a large, orderly cafeteria. The couple's young son flits around the table, like a moth. After a few minutes, he settles into his chair without actually sitting down, as kids often do. Soon, their food arrives exactly as promised, delivered by a smiling young man pushing an ornately carved serving cart that resembles a display case at an old museum.*

20. Ibid.

21. Ibid.

"How do Disney's MagicBands work?"

> *Their MagicBands, tech-studded wristbands available to every visitor to the Magic Kingdom, feature a long-range radio that can transmit more than 40 feet in every direction. The hostess, on her modified iPhone, received a signal when the family was just a few paces away. Tanner family inbound! The kitchen also queued up: Two French onion soups, two roast beef sandwiches! When they sat down, a radio receiver in the table picked up the signals from their MagicBands and triangulated their location using another receiver in the ceiling. The server—as in waitperson, not computer array—knew what they ordered before they even approached the restaurant and knew where they were sitting.*[22]

Thus, Customer Managed Experience requires that the brand achieve on three dimensions:

1. **Customize:** The brand enables customers to digitally customize, shape, specify, and design the kind of experiences they will share with the brand, and ultimately their broader relationship with the brand. What matters here is that brands make customization and management easy to do, to yield high customer satisfaction while protecting the privacy and personal interests of customers.
2. **Choice:** Ultimately "choosing" establishes permissions and precedent for more targeted, timely, and personalized interactions with the brand. This might range from the kind of browsing experience the customer expects—free of ad content, or targeted ad content based on the customer's needs and interests.
3. **Control:** Empower customers with control over transaction, payment, shipping, notifications and reminders, and over frequency, content, and volume of marketing communications. Having control increases retention, because they feel like they've deliberately chosen to receive the brand messaging they receive. In addition, giving customers control enables the brand to improve the relevancy of brand messaging *for the customer.* Relevancy is

22. Cliff Kuang, "Disney's $1 Billion Bet on a Magical Wristband," *Wired*, March 10, 2015, www.wired.com/2015/03/disney-magicband/.

one of the key reasons customers stay tuned to your messaging, and allowing customers to control their personal preferences is how to improve relevancy.[23]

Dominant Experience Expectations: The New Competitive Standard

I recently ordered a children's jungle gym called a dome climber—it looks like an upside-down half-sphere made entirely out of 18-inch-long plastic rods assembled together so that children can climb on top of, or inside and in and out of the dome. I had done business with this company some years ago and decided to order from them again. I went to the company's website, found the specific model dome climber I was interested in, obtained the measurements, and went to place my order online. The order process went smoothly, until the end. The brand's website asked if I would like standard shipping, which would take about 6 weeks, or expedited shipping, which would take about 2 weeks. The additional cost for expedited shipping was $42—the dome itself cost about $200. However, the shipping time—and the cost—seemed quite unreasonable compared to my expectations from other online purchases.

But I was desperate. We had guests with children coming to stay with us in about 4 weeks. I chose the expedited shipping and placed the order. A confirmation email said the order would arrive on July 10, about 2 weeks in advance of my guests' arrival. July 10 came and went. Four weeks came and went. Our guests arrived and no word from the dome climber company. I had sent them several emails—radio silence. I found a telephone number on the internet and called them several times—an answering machine answered, but I never got a call back. Our guests left, still no dome climber. Finally, about 10 weeks after placing the original order I noticed a credit on my credit card bill for $242 from the dome climber company. They must have cancelled the order. I thought I might call them and find out what happened, but then thought again—no way. I checked the company's Better Business Bureau grade: an "F," with 50 of 60 complaints related to "Delivery Issues."

23. See Ellie Mirman, "28 Quick Tips for Customizing Your Email Preference Center," *HubSpot Blogs*, January 9, 2013, http://blog.hubspot.com/blog/tabid/6307/bid/34022/28-Quick-Tips-for-Customizing-Your-Email-Preference-Center.aspx.

Obviously, the company had failed me and many others. But what is striking in retrospect is the expectations I had at the time of purchase. I fully expected that my shipment would arrive in 10 business days for normal shipping, and 2 business days for expedited shipping—with a nominal expedited shipping charge. Where had these expectations come from? My membership in Amazon Prime.

I recently did an online order with a vitamin supplement company. They offered 2-day delivery—free, if I would commit to automatic order renewal on a 2-month depletion cycle, similar to Amazon Prime's membership model. More companies feel pressure to offer free 2-day shipping because customers expect it. And the genesis of their new expectations is Amazon.

What is happening here is what I call a *Dominant Experience Expectation,* meaning that the experiences customers encounter with best-practice brands are automatically extended to other contexts involving the same type of experience—regardless of product or service category.

This is not unusual. In product design and manufacturing there is a concept known as "dominant design," in which as markets mature engineering expectations gradually converge on a product design that dominates all other designs. For example, the V8 engine once was a dominant design in automobiles. The pull-down menu GUI user interface in computers is another example of a dominant design, originally developed at Xerox PARC (Palo Alto Research Center) and adopted by Apple, and then later by Microsoft Windows.

The logic is just as applicable to buyers and markets. The coalescing of market expectations around a dominant buyer experience eventually forces all competitors to adopt the new market standard or be viewed as offering an inferior value to buyers. Netflix has established a dominant experience expectation about how to view movies and videos—unlimited viewing for a fixed monthly subscription price. Other services from Verizon, Comcast, Apple, and others charge for individual movie rentals, which works fine for highly valuable movies like new releases. Otherwise, customers expect to get unlimited access to a large inventory of entertainment for a fixed price. Hulu and Spotify offer similar models—unlimited access for a fixed price, and Apple Music is doing the same.

The implications of this for brands are significant. For example, you thought you knew who your competitors were by virtue of your industry or product definition—computers, smartphones, healthclubs, and so on. But in fact your business model is now interrupted by the evolution of customer expectations into dominant expectations based not on products, nor even service, but on experience.

Apple Pay was introduced with the iPhone 6 in 2014 in many retailers. Those retailers with NFC technology payment terminals were compatible and many began to accept Apple Pay. However, a consortium of 40 retailers decided not to accept Apple Pay, including Walmart, Best Buy, Target, and CVS, among others. For several years, these retailers had been trying to establish their own payment terminal system, called CurrentC, in an attempt to bypass credit card fees they had to pay banks and credit companies, typically 2%–4% of the transaction price. Apple Pay would subvert the 40-retailer consortium's goals by retaining securely the customer's credit card information in their iPhone for payment swiping. In the ensuing months customers who had invested hundreds of dollars in the new iPhone 6 wanted to use the new Apple Pay technology at retail, but the CurrentC consortium of retailers blocked them. Bloggers wrote, opinion leaders complained, advising customers to cut ties with their old retailers until they accepted the new Apple Pay. On the Google Play store, customers gave the CurrentC app scathing reviews, with a 1.1 average rating out 5.0, and many negative reviews.

Gradually, the CurrentC consortium is beginning to crumble—Best Buy and Kohl's have abandoned the consortium and are accepting Apple Pay; and Target is moving in the same direction. Gradually market expectations will coalesce into dominant experience expectations of what payment experience should be, likely centered in the new Apple Pay instead of CurrentC. "Instead of seeing mobile wallets as an easier, safer way for customers to pay for things, [consortium] retailers viewed them primarily as a means to cut costs—and that's a failing strategy when it comes to persuading consumers to change long-standing habits," said Quartz.[24]

The same dominant experience expectations are affecting the world of apps versus websites versus mobile-optimized websites. Many traditional marketers wonder whether to invest in building apps, or mobile-optimize their website for mobile browsing, or simply maintain

24. "Retailers Have Mishandled Mobile Payments for Years. It's Time to Surrender to Tech," *Quartz*, May 30, 2015, http://qz.com/414549/retailers-have-mishandled-mobile-payments-for-years-its-time-to-surrender-to-tech/.

their long established website. The old website works reasonably well, the technology is well known and established, and consumers don't complain about its functions. However, as we've stressed at different points in this book, consumers are rapidly migrating toward mobile—either smartphones or tablets and now access the web primarily through mobile devices. The dominant experience expectation for web access—via computer-based websites—is gradually giving way to a new dominant expectation for online access, via apps.

Raj Aggarwal of Localytics wrote:

> *Just like the web did, the popularity of mobile apps has also changed the way we create, consume, and share digital information. In less than seven years since the release of the first iPhone, smartphone adoption among Americans has jumped to 58%. Mobile internet traffic, primarily driven by apps, will comprise 25% of all web traffic by the end of the year. The rich and interactive experiences we have come to expect on mobile apps have created new standards and expectations for all digital media including the web. The result is websites are evolving to become more app-like in their rich functionality. I like to call it the "appification of the web." . . . Apps are everywhere today. They are on desktops, phones, watches, glasses, and even cars and offer rich, action-oriented user experiences across mobile and web platforms. . . . The earliest websites were a one-way street. Today, most websites have not moved significantly beyond a place to display information that can be consumed with little user interaction or input.*

Note Aggarwal's emphasis on action-oriented user experiences. He continued:

> *That same story is playing out again in mobile apps, users are expecting companies to have a mobile app. However, apps are different; they engage users and perform tasks that make our lives easier. In fact, many people check for a mobile app before going to a website. The next step in this evolution is the expectation that apps on the web will deliver the same quality experience as apps on mobile. . . . The "appification" of the web also benefits app marketers and developers, who are in a better position to collect contextual data, understand their users' behaviors, and deliver to them personalized user experiences.*[25]

25. Raj Aggarwal, "25 Years After Its Birth, the World Wide Web Becomes Appified," *Wired*, March 25, 2014, www.wired.com/insights/2014/03/25-years-birth-world-wide-web-becomes-appified/.

Customer Journeys

At the center of Customer Managed Experience is the customer journey, a concept that has been a focus of marketing practice for nearly a decade, but in the digital economy is seeing greater innovation and emphasis. To appreciate this innovation, it is useful to frame our discussion with the traditional buyer decision process. For over a century, marketers have conceived of the buyer decision process as a progression through stages or steps, starting with need recognition information search, alternative evaluation, and concluding with purchase and then post-purchase behaviors (see Figure 4.2). This linear process has been envisioned as a funnel, from many brands to few brands, to one loyal brand (see Figure 4.3). This basic model has been the premise of marketing and sales, used by media and marketing planners to allocate marketing investments and budgets—for example, whether to invest in brand awareness, say for new products, or to invest in knowledge, say to change customer beliefs about the brand, or to invest in purchase via promotions or product placement at point of purchase.

The fundamental assumption of the funnel model is that buyers begin by evaluating many different brand alternatives and then narrow their selection of brands over time as they acquire greater knowledge, as they consider a smaller subset of consideration brands, and finally purchase one

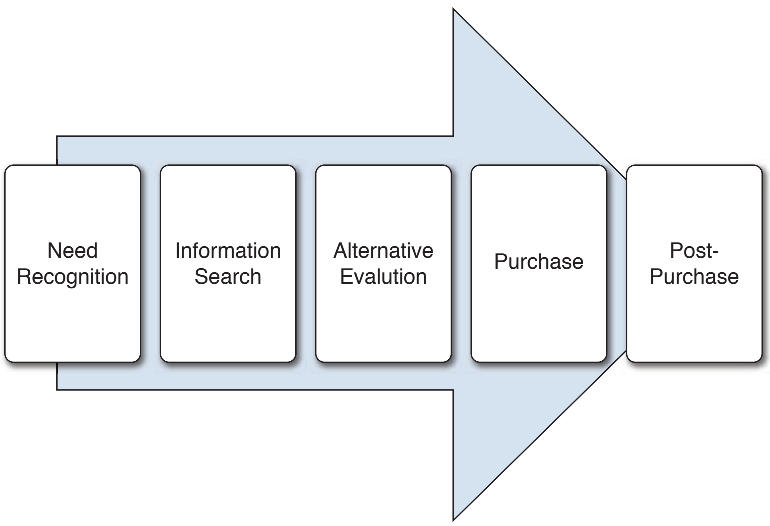

Figure 4.2 Basic Linear Buyer Decision Model

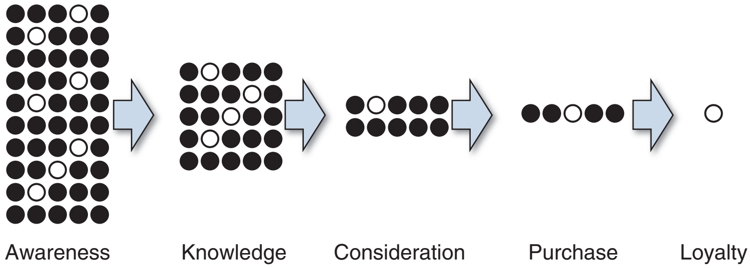

Figure 4.3 The Funnel Buying Decision Model

Adapted from: David Court, Dave Elzinga, Susan Mulder, and Ole JørgenVetvik, "The Consumer Decision Journey," *McKinsey Quarterly,* June 2009.

brand, and eventually become loyal to the brand. McKinsey consultants summarized:

> *The funnel analogy suggests that consumers systematically narrow the initial-consideration set as they weigh options, make decisions, and buy products. Then, the post-sale phase becomes a trial period determining consumer loyalty to brands and the likelihood of buying their products again. Marketers have been taught to "push" marketing toward consumers at each stage of the funnel process to influence their behavior.*[26]

However, the way consumers buy has changed dramatically. Not only are consumers using new technologies in ways that transform their buying patterns, but there is much greater consumer empowerment and engagement. Consumers no longer wait passively for advertising information to come to them, as was true through the mass marketing eras of the late twentieth century. They actively search online, look at review sites and blog posts, and talk with friends and others in social media—the process is omni-directional. In the digital economy it is increasingly less clear whether brands should spend their resources on traditional stages of awareness, knowledge, purchase, and so on, because consumers spend less time on pure awareness, and are much more prone to self-education and knowledge, and are likely to try the brand, or even multiple brands.

26. David Court, Dave Elzinga, Susan Mulder, and Ole Jørgen Vetvik, "The Consumer Decision Journey," *McKinsey Quarterly,* June 2009, www.mckinsey.com/insights/marketing_sales/the_consumer_decision_journey.

This is especially true in the age of apps where downloading and trying an app can be either free or very inexpensive.

McKinsey cited two fundamental problematic assumptions with the funnel model: First, the funnel is wide at the front, and narrow at the end. But that doesn't describe how people actually go through the decision-making process. In fact consumers often know so little at the beginning of the process that they are aware of fewer brands and know little about which brands really compete in the product or service space—they don't know what questions to ask, and which brands might be relevant as a solution. Second, the funnel is linear—the buyer proceeds through steps in order. But McKinsey found through their research that the process is more circular in nature.

Others have made similar observations about the funnel model. Steve Anderson, an expert in insurance sales said: "The first time I was truly responsible for creating sales was in 1990. Back then, the whole sales process was controlled by the sales person. You'd cold call somebody and manage the sales process all the way through the funnel. As the sales person, I had all the information the prospect wanted, including pricing and discount options. I controlled the sales process. . . . Today, successful sales is more about self-service marketing than ever before. To find and attract the invisible prospect you need to be able to be very helpful. And your prospect may not start at the top of your sales funnel. By the time you find out they are a prospect for your services they may have already gone through multiple marketing steps. They did the research on their own."[27]

Jamie Anderson of CRM systems purveyor SAP said:

> *Customers today are digitally connected and socially networked—and they're better informed than they have ever been. Before they walk into a store or branch, customers have researched a product and know more about it than they did in the past. As a consequence, the way businesses engage those customers is significantly different from the customers of years before, who walked in looking for something and were more receptive to a salesperson's recommendations.*[28]

27. Steve Anderson, "Is the Sales Funnel Obsolete," *LinkedIn*, January 13, 2014, www.linkedin.com/pulse/20140113143212-5214630-is-the-sales-funnel-obsolete.

28. Jamie Anderson, "From CRM to the Customer-Managed Relationship: How Customers' Expectations and Influence Have Changed Their Dynamic with Businesses," *SAPinsider*, Volume 15, Issue 1, January 1, 2014, http://sapinsider.wispubs.com/Assets/Articles/2014/January/SPI_Feature_From-CRM-to-the-Customer-Managed-Relationship.

He continued:

> *Now customers are willing to abandon an in-store purchase due to negative online sentiment. They can scan an item and read an online review before deciding whether to buy the product. In the past, customers would have to purchase a product and bring it home before possibly finding fault with it. This preparation and advanced knowledge changes the nature of the relationship between the customer and the business, which can no longer sell and market to the customer in the same way. Instead of trying to control the customer's journey, companies need to act as an orchestrator or conductor of that journey, which needs to be seamless across all channels. Many customers are past being sold to, but love to buy. Making the buying journey the anchor point for how you build engaging customer experiences will allow you to facilitate the outcome that the customer wants to achieve. The company needs to be connected across sales, service, and marketing to achieve this goal.*[29]

Customer relationship management (CRM) systems are designed essentially based on the funnel model, with customers proceeding through steps and stages. "Customers no longer conform to the push-marketing, sales-funnel thinking that most CRM systems are built upon, which tends to force customers into a relationship paradigm in which the business is in control," said Jamie Anderson. "This is the notion that customers follow a model designed to elicit awareness, interest, decision, and action. It was developed in the 19th century and no longer applies today. This is why pull marketing is becoming so effective in uncovering customer need and connection. There are now multiple touch points where the customer enters and continues his or her relationship with a business, and the journey doesn't happen in a linear fashion—it happens at the customer's convenience."[30]

McKinsey's Consumer Decision Journey Model

McKinsey's research of 20,000 consumers led to the Consumer Decision Journey model, circular in nature and more flexible in describing possible journeys through consideration, purchase, and post-purchase bonding (see Figure 4.4).

29. Ibid.

30. Ibid.

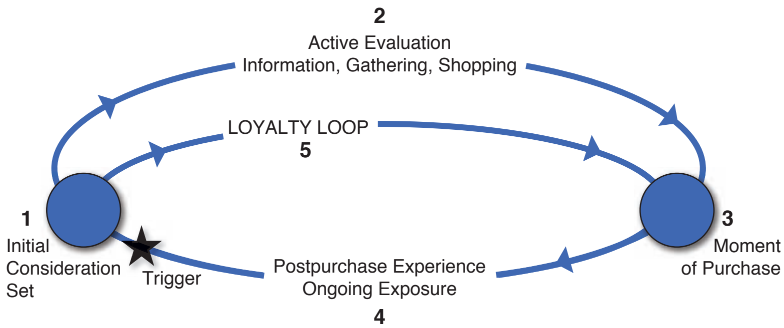

Figure 4.4 McKinsey's Consumer Decision Journey

Adapted from: David Court, Dave Elzinga, Susan Mulder, and Ole JørgenVetvik, "The Consumer Decision Journey," *McKinsey Quarterly,* June 2009.

According to McKinsey, captured in presentation videos by David Court and others[31] and in articles in *McKinsey Quarterly* and *Harvard Business Review*,[32] the process starts with ongoing exposure as people form impressions of brands from daily touchpoints such as advertisements, news reports, conversations with family and friends, and product experiences. But consumers are only passively absorbing, and not processing this type information clutter. But then something happens that triggers the impulse to buy. It might be the breakdown of an existing product, or a need for a new outfit for a social or professional occasion—this is a trigger moment. At this point, the accumulated impressions from earlier months and years—from advertising, personal experience, conversations with others, social media—become critical because they shape the formation of the initial-consideration set: At the outset this is a relatively small number of brands consumers regard as potential purchasing options.[33]

31. See Torben Rick, *Consumer Decision Journey*, www.youtube.com/watch?v=IGXE0o8ul4w.

32. David C. Edelman, "Branding in The Digital Age: You're Spending Your Money In All the Wrong Places," *Harvard Business Review* (December 2010); and David Court, Dave Elzinga, Susan Mulder, and Ole Jørgen Vetvik, "The Consumer Decision Journey," *McKinsey Quarterly*, June 2009, www.mckinsey.com/insights/marketing_sales/the_consumer_decision_journey.

33. This discussion based on David Court, Dave Elzinga, Susan Mulder, and Ole Jørgen Vetvik, "The Consumer Decision Journey," *McKinsey Quarterly,* June 2009.

People then begin to move toward purchase in a decision-making process that is a more circular journey than linear. The journey includes five phases representing potential investments where marketers can influence purchase: (1) *Initial Consideration Set*, formed by a set of brand alternatives with which the consumer is familiar and has favorable attitudes toward; (2) *Active Evaluation*, where buyers research potential purchase alternatives; (3) *Closure, or Moment of Purchase*, when consumers buy a chosen brand; (4) *Post-purchase*, when consumers experience the brand; and (5) *Loyalty Loop*, when consumers form judgments about attachment, bonding, and loyalty with the brand.

For example, imagine a consumer that plans to purchase a new laptop computer. During the past several months the consumer has sensed the need for a new laptop; her current laptop processed new video-rich programs sluggishly, and battery and screen were both showing signs of aging. She paid more attention to computer advertising, and noticed the brands that other coworkers were using, and read a review article in the *Wall Street Journal*. From this pre-exposure, she formed an initial consideration set of brands that she might purchase. McKinsey said:

> *Faced with a plethora of choices and communications, consumers tend to fall back on the limited set of brands that have made it through the wilderness of messages. Brand awareness matters: brands in the initial-consideration set can be up to three times more likely to be purchased eventually than brands that aren't in it.*[34]

However, their research counters essential assumptions of the linear funnel model. They continued

> *[Contrary] to the funnel metaphor, the number of brands under consideration during the active-evaluation phase may now actually expand rather than narrow as consumers seek information and shop a category. Brands may 'interrupt' the decision-making process by entering into consideration and even force the exit of rivals. The number of brands added in later stages differs by industry: our research showed that people actively evaluating personal computers added an average of 1 brand to their initial-consideration set of 1.7, while automobile shoppers*

34. Ibid.

added 2.2 to their initial set of 3.8. This change in behavior creates opportunities for marketers by adding touch points when brands can make an impact. Brands already under consideration can no longer take that status for granted.

During the second stage, *Active Evaluation*, the consumer is intent on purchasing and is actively researching different brand alternatives and solutions—deliberately searching online, seeking advice from friends, visiting showrooms, attending to advertising, and so on. Stage 3, *Closure*, is the moment of purchase. For many brands and products this is a critical moment because many consumers still haven't decided which brand to buy when they enter the store. They make the decision in the store or on site. For example, fast food restaurants such as Wendy's and Burger King often locate their restaurants next to other directly competitive fast food restaurants, such as McDonalds, because consumers often don't make their fast food decision until they arrive at their location. McDonalds spends nearly 40% of its sales revenue on marketing and advertising, intending to draw customers to its retail stores. The competitors meanwhile spend less on advertising than McDonalds, but instead attempt to compete on location with highly visible retail signage and logos hoping to draw customers making last-minute decisions where to eat.

The fourth stage, *Post-purchase* experience, involves ongoing exposure to stimuli about the brand and other brands, which shapes their opinion for the next subsequent decision in the product category, so the journey is an ongoing cycle. According to McKinsey, "More than 60 percent of consumers of facial skin care products, for example, go online to conduct further research after the purchase."

The McKinsey Consumer Decision Journey adds a final "bypass" stage: the *Loyalty Loop*, which short-circuits the larger decision process. At this stage buyers will have already been forming judgments about brand performance, but now also form more affective judgments of attachment, bonding, and loyalty. At this point the McKinsey model distinguishes between active and passive loyalists. According to their research active loyalty is the more traditional view of loyalty. When they are ready to repurchase buyers really don't consider other brands. Indeed they recommend it to others. However, many more people exhibited what McKinsey called passive loyalty, where somewhat loyal buyers are open to buying their initial brand again, but are also open to the possibility of other brands as they embark once again on the active evaluation phase.

"Take the automotive-insurance industry, in which most companies have a large base of seemingly loyal customers who renew every year," said McKinsey. "Our research found as much as a sixfold difference in the ratio of active to passive loyalists among major brands, so companies have opportunities to interrupt the loyalty loop. The US insurers GEICO and Progressive are doing just that, snaring the passively loyal customers of other companies by making comparison shopping and switching easy. They are giving consumers reasons to leave, not excuses to stay."[35] They concluded:

> *To look beyond funnel-inspired push marketing, companies must invest in vehicles that let marketers interact with consumers as they learn about brands. The epicenter of consumer-driven marketing is the Internet, crucial during the active-evaluation phase as consumers seek information, reviews, and recommendations. Strong performance at this point in the decision journey requires a mind-set shift from buying media to developing properties that attract consumers: digital assets such as Web sites about products, programs to foster word-of-mouth, and systems that customize advertising by viewing the context and the consumer. Many organizations face the difficult and, at times, risky venture of shifting money to fundamentally new properties, much as P&G invested to gain radio exposure in the 1930s and television exposure in the 1950s.*[36]

The Loyalty Loop bypass especially shows the potential for faster transactions (speed of sale) and higher probability (success of sale) facilitated by digital search and shopping.

McKinsey's New Accelerated Consumer Decision Journey

In late 2015, McKinsey updated their thinking on the Consumer Decision Journey with the rapid emergence of the digital economy and the consequent impact on customer empowerment. "In the past few

35. Ibid.

36. Ibid.

years, brands have been playing catch-up, investing in new technologies and capabilities in a bid to regain relevance with shoppers and exert greater influence over how they make purchasing decisions," said David Edelman and Marc Singer of McKinsey. Their latest research with chief digital officers recommends that "brands today can not only react to customers as they make purchasing decisions but also actively shape those decision journeys . . . Companies that do this well can radically compress the consideration and evaluation phases—and in some cases even eliminate them—during the purchase process and catapult a consumer right to the loyalty phase of the relationship . . . The journey itself is becoming the defining source of competitive advantage."[37]

McKinsey proposed a refined version of its classic decision journey model that stressed the possibility of brands adroitly guiding new consumers into the loyalty loop by engaging them into a well-designed brand customer decision journey that sensed where customers were in the journey—even if they dropped out and reentered later, and provided a continuous, customized, compelling journey experience (see Figure 4.5). For example, the old classic journey model assumed that consumers engaged in extended consideration and evaluation before entering into the loyalty loop or engaged in new consideration and evaluation of another brand.

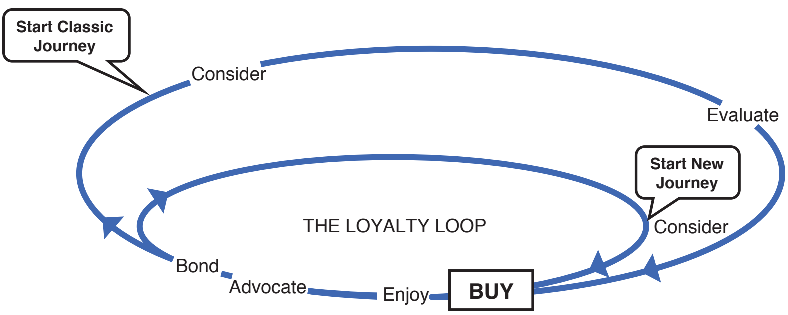

Figure 4.5 McKinsey's New Accelerated Consumer Decision Journey

Source: Adapted from David Edelman and Marc Singer, "Competing on Customer Journeys," *Harvard Business Review* (November 2015), https://hbr.org/2015/11/competing-on-customer-journeys.

37. David Edelman and Marc Singer, "The New Consumer Decision Journey," McKinsey&Company Insights & Publications (October 2015), http://www.mckinsey.com/Insights/Marketing_Sales/The_new_consumer_decision_journey?cid=digital-eml-alt-mip-mck-oth-1510.

However, the "new [accelerated] journey [model] compresses the [consideration] step and shortens or entirely eliminates the evaluation step, delivering customers directly into the loyalty loop and locking them within it."[38]

For example, Sungevity, a maker of solar panels, uses regular mail with a unique URL, Google Earth images of a consumer's home reimagined with solar panels superimposed on the roof, an energy savings calculator, live chat with a sales rep, links to videos on installing and leasing, and the names and numbers of nearby recent homeowner customer references. The journey is continuously updated and customized depending on where the customer is in the moment all the way through leasing, financing, permitting, installation, and subsequent reporting on energy use, power generation and savings. Edelman and Sanger summarized what happened behind the scenes: "Crucial here is sophisticated use of APIs (application interfaces) to pull data from other providers, such as Google Earth and the real estate service Trulia, to assemble a picture of the customer. Data analysis allowed proactive personalization that targeted [the customer] with customized information such as costs, timeline, and anticipated breakeven and savings . . . Contextual interaction capabilities allowed Sungevity to serve the right content in the right channel for each of [the customer'] interactions—for example, using APIs to track the panel installation by the company's local contractor and then regularly updating [the customer's] landing page with the latest status."[39]

Oracle's Customer Experience Infinity Loop Model

The Oracle Customer Experience Infinity Loop (CX Lifecycle) model is a figure-eight infinity loop which posits that buyers consider purchasing to consist of two broader phases, with roughly comparable emphasis: "Buy," in which the brand is engaged in marketing and selling activities; and "Own," where the brand engages in support and service activities (see Figure 4.6).

38. David Edelman and Marc Singer, "Competing on Customer Journeys," *Harvard Business Review* (November 2015), https://hbr.org/2015/11/competing-on-customer-journeys.

39. Ibid.

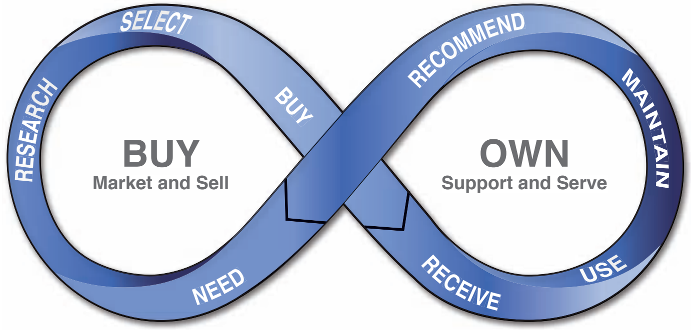

Figure 4.6 Oracle's Customer Experience Infinity Loop Model

Source: Customer Experience: Empowering People. Powering Brands. Oracle, Executive Strategy Series, http://www.oracle.com/us/solutions/customer-experience/cx-overall-exec-strategy-brief-1730727.pdf.

The infinity loop clarifies that there is an important distinction between being a prospective customer where the brand marketer's goal is to encourage trial, and an actual customer, where the goal is to demonstrate value. This continuous and contiguous process is common for higher price depletion, renewal, and purchasable items, including automobiles, insurance, telecommunications, and most big-ticket retail items such as computers, TVs, furniture, appliances, electronics, sporting gear, and many, many others.

Looking at the model, within the Buy Loop, buyers proceed through four stages: (1) *Buyer Need,* where buyers trigger the decision process based on a sudden or realized consumer need, similar to McKinsey's Consumer Decision Process; (2) *Research,* in which buyers engage in research and consideration of possible brand alternatives and solutions; (3) *Select,* where buyers determine a brand or limited number of brands to sample and purchase; and (4) *Purchase,* the actual moment of decision, purchase, and transaction.[40]

40. "Notes from the Oracle CRM Keynote by Melissa Boxer, Vice President, CRM Product Management and Product Strategy," July 9, 2012, UK Oracle User Group, www.ukoug.org/what-we-offer/news/notes-from-the-oracle-crm-keynote-by-melissa-boxer-vice-president-crm-product-management-and-product-strategy/.

Within the Own loop, buyers proceed through four stages: (1) *Receive,* the moment in which the buyer takes custody or commences utilizing the product or service, such as opening a carton or package and discovering the product contents inside; (2) *Use,* the period during which the buyer uses and experiences the product—what economists call deriving value in use, or utility; (3) *Maintain,* when the buyer invests in keeping and maintaining the product or service for continued serviceability and use; and (4) *Recommend* the brand to other potential buyers.

Oracle provides this illustration of the Infinity Loop Model's decision process:

> *The contacts start the journey with an email. This takes them through to a personal URL tracking behaviours and showing personalised offers, this is then followed up a few days later when they spot an outdoor advertisement on a bus shelter with a QR code. The code takes them through to a mobile page and a relevant store (based on where they are in the county). The customer then goes to a store and identifies themselves; the employee would then know who the customer is; their personal stats and history. Suggestions to the customer could then be highly personalised. The customer decides not to purchase at that point but investigation then goes online. The customer uses the click-to-chat on the website to find out more, they then tweet about the promotion or service they have experienced. The next call they make is to the sales department and the person on the end of the phone can see the customer's tweet and interaction history. Finally when something is purchased a reward is sent to the customer's phone to reward them for engaging on the journey with your business.*[41]

Of course, Oracle is a leading purveyor CRM systems and software and the Infinity Loop model is used as a conceptual foundation for their CRM systems delivery. Consequently, Oracle has been active in making acquisitions for the Customer Experience (CX) practice, including, for example, ATG, a leading provider of eCommerce software and related on demand commerce optimization applications; FatWire, a leading provider of web experience management solutions

41. Ibid.

enabling marketers to optimize the online experience for customers; InQuira, a leading provider of best-in-class service knowledge management software that supports web self-service and agent-assisted service; ENDECA, a leading provider of unstructured data management, web commerce, and business intelligence solutions; RightNow, a leading provider of cloud-based customer service to deliver customer experiences across call centers, the web, and social networks; and Virtue, a leading cloud-based social marketing and engagement platform that enables marketers to centrally create, publish, moderate, manage, measure, and report on their social marketing campaigns. Oracle has also been developing and building new applications to compliment its CX acquisitions, with a focus either on "Fusion CRM" on premise or Cloud.[42]

One example from Oracle's CX practice in the UK:

> *Starbucks [is] doing [CX] well using Oracle to streamline the customer journey in the US, using a loyalty programme which will be rolled out in the UK soon. The loyalty scheme uses an app which customers use to purchase coffee. Starbucks can then track behaviour and personal data to build a picture of their customers and give back to the customer in a way they like. For example a free drink on their birthday or a special offer on a snack they often buy with their drink.*[43]

Monitoring and Engaging with Customer Journeys

These strategically designed customer journeys are really conceptual architectures for understanding how to map, model, anticipate, and engage with consumers along their consumer decision process, customized for each customer in the moment. All of this is possible through marketing analytics and the endless options offered to consumers via mobile access to search, explore, compare, share, and purchase online. Consultants Edwin van Bommel, David Edelman, and

42. Ibid.

43. Ibid.

Kelly Ungerman of McKinsey recommend that firms do three things to leverage these new capabilities:[44]

- **Discover:** Apply advanced analytics to structured and unstructured customer data to get a 360-degree view of their customers. Engagement should be based on customers' recent behaviors and past experiences with the brand, as well as signals embedded in mobile or social-media data.
- **Design:** Consumers now control where they focus their attention, so brands must craft a compelling customer experience in which all interactions are expressly tailored to a customer's stage in her journey.
- **Deliver:** "Always on" marketing programs, in which companies engage with customers in exactly the right way at any touchpoint along the journey, require agile experts in analytics, marketing, and experience design—working cross-functionally with strong collaboration and relentless iterative testing, learning, and scaling.

For example, customers purchasing a new sofa might start their journey by visiting furniture retailer websites—where they save possible sofa ideas, and pin their sofa possibilities to a Pinterest wall to share with friends and family. They visit the retailer showroom to physically experience the sofas—as they walk through the door an iBeacon transmitter mounted at the showroom's entrance identifies them and sends a push message to their smartphones with a welcome and directions on where in the store they can find their saved sofas—with personalized "percent off" offers that are personally relevant. The retailer's mobile app has a "virtual designer" function that enables the entry of room size and décor information, which enables them to see how the sofa will look at home. They pay with their smartphone, schedule delivery, receive a confirmation email of delivery date and approximate time window, then a text on the day of delivery with a precise delivery time.

As we noted earlier in our discussion on dominant experience expectations, customers increasingly experience these types of engagement interactions, and will therefore build them into their expectations of not only how to buy a sofa, but how to buy other large ticket items. "Across the entire customer journey, every touchpoint is a brand

44. Edwin van Bommel, David Edelman, and Kelly Ungerman, "Digitizing the Consumer Decision Journey," McKinsey Insights and Publications, June 2014, www.mckinsey.com/insights/marketing_sales/digitizing_the_consumer_decision_journey.

experience and an opportunity to engage the consumer—[even as] digital touchpoints just keep multiplying."[45]

Moreover, downloadable smartphone apps (at minimal or no cost) that also leverage the Internet of Things, Bluetooth LE Beacons (e.g., iBeacons), and wearable devices further facilitate the possibilities for accelerated consumer decision journeys that move consumers directly into the loyalty loop. Edelman and Sanger suggest several keys to achieving this kind of accelerated journey: (1) *Digital Automation*, such as using a bank's app to "simply photograph [a] check with your smartphone and deposit it via an app," or "researching, buying, and arranging delivery of, say, a new TV [via] a one-stop digital process," such as that experienced with Amazon or other online retailers; (2) *Proactive Personalization,* which senses where customers are in the journey and customizes interactions for that moment, such as revising the content consumers see at the brand's website based on their historical interactions with the site over time; (3) *Contextual Interaction,* which anticipates where consumers will be going next to deliver a truly customized experience, such as an airline app that displays your boarding pass when you enter the airport, or a new Starwood Hotels app that "texts a guest with her room number as she enters the hotel, checks her in with a thumbprint scan on her smartphone, and, as she approaches her room, turns her phone into a virtual key that opens the door"; and (4) *Journey Innovation,* to constantly test new journey possibilities such as consumer prompts based on previous use or purchase patterns or expanding the journey into adjacent touchpoints—"Delta Air Lines' mobile app, for example, has become a travel management tool for almost every aspect of an airplane trip, from booking and boarding to reviewing in-flight entertainment to ordering an Uber car upon landing."[46]

Measuring and Analyzing Customer Journeys

Measuring and analyzing customer journeys is becoming increasingly important. One clear and obvious source of customer journey data is a customer's clickstream activity across various online search channels—social media, email, referrals, paid search, organic search, and various others. Google models the customer journey and quantifies search channel usage

45. Ibid.

46. Ibid.

and influence leading to purchase using proprietary algorithms to analyze consumer clickstream data (see Figure 4.7). Here Google's portrayal of the customer journey is a linear one, although their method could be applied to any journey model form. A channel's position on the chart is defined by the "assist/last interaction ratio"—according to Google, ratios less than one mean the channel acts more as a "last interaction" before purchase; ratios more than one mean the channel acts more as an "assist interaction" in the customer journey.[47] Figure 4.7 shows a Google customer journey for an auto purchase in the United States.

Google uses several measures to calculate the assist/last interaction ratio. See Box 4.1 for a detailed description of Google's customer journey measurement methodology.

A smart way to begin measuring and estimating the impact of different touchpoints or channels along the customer journey is using marketing attribution. In online marketing, for example, marketing attribution means "dividing up the value of an online sale (or conversion) and distributing fractions of that value across the different touchpoints that led to the sale, from a display ad seen last month to a search ad clicked this morning," using the customer journey structural layout shown in Figure 4.7. Although your marketing attribution estimates can be applied in any customer journey model configuration, not simply the linear version shown in Google's version. Figure 4.8 shows a simple marketing attribution estimation method that Google recommends.

The simplest way to derive these marketing attribution estimates is to get expert judgment estimates from customer facing personnel in your organization using a constant sum scale method—asking them to allocate 100 points, or sometimes $100, across the various touchpoints and channels; more important touchpoints receive greater allocations. "Attribution can [also] be done with spreadsheets, rules-based modeling software or even sophisticated data-driven algorithms," said Google. "Whatever attribution method you choose for your business, make sure you continue to adapt and measure results so you can see what really works for your business."[48]

47. Source: "Analyze Channel Contribution," Google Analytics Help, https://support.google.com/analytics/answer/1191204?hl=en.

48. "Measure What Matters Most: A Marketer's Guide to Improving Outcomes by Focusing on your Best Customers and the Critical Moments in their Journey," *ThinkwithGoogle*, https://think.storage.googleapis.com/docs/measure-what-matters-most_articles.pdf.

Figure 4.7 Google Measures the Influence of Customer Journey Channels

Source: ThinkwithGoogle.com, www.thinkwithgoogle.com/tools/customer-journey-to-online-purchase.html?utm_medium=PDF&utm_source=guide#!/the-us/autos-and-vehicles/large/referral. Used with permission.

Box 4.1: Google Methodology for Measuring Customer Journey Channel Influence

A channel can play three roles in a conversion path [to purchase]:

- *Last interaction* is the interaction that immediately precedes the conversion.
- *Assist interaction* is any interaction that is on the conversion path but is not the last interaction.
- *First interaction* is the first interaction on the conversion path; it's a kind of assist interaction.

To calculate the metrics in this report, Google Analytics looks across all the conversion paths for the conversions you're analyzing.

- *Assisted Conversions and Assisted Conversion Value:*

This is the number (and monetary value) of sales and conversions the channel assisted. If a channel appears anywhere—except as the final interaction—on a conversion path, it is considered an assist for that conversion. The higher these numbers, the more important the assist role of the channel.

- *Last Click or Direct Conversions and Last Click or Direct Conversion Value:*

This is the number (and monetary value) of sales and conversions the channel closed or completed. The final click or direct traffic before a conversion gets last interaction credit for that conversion. The higher these numbers, the more important the channel's role in driving completion of sales and conversions.

- *First Click Conversions and First Click Conversion Value:*

The number (and monetary value) of sales and conversions the channel initiated. This is the first interaction on a conversion path. The higher these numbers, the more important the channel's role in initiating new sales and conversions.

- *Assisted/Last Click or Direct Conversions and First/Last Click or Direct Conversions:*

These ratios summarize a channel's overall role. A value close to 0 indicates that a channel completed more sales and conversions than it assisted. A value close to 1 indicates that the channel equally assisted and completed sales and conversions. The more this value exceeds 1, the more the channel assisted sales and conversions.

Source: "Analyze Channel Contribution," Google Analytics Help, https://support.google.com/analytics/answer/1191204?hl=en.

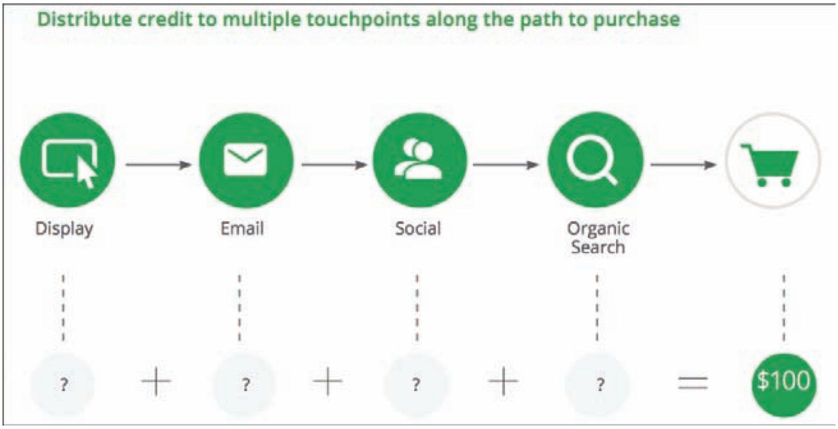

Figure 4.8 Estimating Value of Touchpoints of Channels Across the Journey

Source: "Measure What Matters Most: A Marketer's Guide to Improving Outcomes by Focusing on Your Best Customers and the Critical Moments in their Journey," ThinkwithGoogle, https://think.storage.googleapis.com/docs/measure-what-matters-most_articles.pdf. Used with permission.

Visualizing Actual Customer Journeys

These customer journey-tracking and estimation methods are useful. However, the customer journey remains enormously complex. We often design customer journeys that reflect how we as marketers normatively understand consumers to behave. We then design our marketing to influence consumers to behave linearly or in loops, by investing in steps, phases, or touchpoints within our hypothesized journey model. This is partly due to our basic cognitive sensibilities as brand strategists—it is difficult to represent and talk about the customer's journey if the journey is messy and disorganized.

However, in the digital economy where consumers are empowered the assumptions of a simple journey become less tenable. The customer's journey is often messy, nonlinear, broken up, interrupted, and then picked up again. And in a mobile world, its nonlinearity and unpredictability are accentuated—where consumers access, share, search, pause, set aside, try, share, pause—in almost random manner. Increasingly it becomes more difficult to design a customer journey that adequately reflects the customer's reality, as they are the ones that steer it, rather than marketers.

However, what if we tried another approach? Instead of preplanning and designing a customer journey in advance, why not observe customer journeys in progress and then map the customer journey based on customer activities and transactions? Actually mapping the customer journey requires different analytical approaches—measuring, monitoring, and capturing the frequency, recency, order priority, and investment intensity (time, money) of particular touchpoints, wherever the customer pauses along his/her way in his/her customer journey. Analytically, we can then use these data to visualize these waypoints; and practically we use them to engage, assist, advise, suggest, encourage, and facilitate while the customer is on his/her journey—as we saw in the McKinsey example above. All of this requires a new set of marketing skills—listening, understanding, anticipating, alerting, linking—all enabled by technologies such as LE beacons, apps, GPS tracking, social media, wi-fi-enabled devices, the Internet of Things, and more—and the orchestration layers to connect them. It also requires a new set of analytical skills—visualization, dynamic network analysis, cartography, clustering, and dynamic filtering.

Visualizing customer journeys utilizes methodologies developed in the visual analytics field of research, with visualization and exploration of dynamic networks, complex systems, cartography, and hierarchical graphs. Various software programs are available, such as Gephi (http://gephi.github.io), Social Network Visualizer (http://socnetv.sourceforge.net), or Polinode (www.polinode.com). Gephi is generally considered the most accessible to average users. Figure 4.9 shows a dynamic analysis using Gephi and Google Analytics to visualize keywords and landing pages for a blog. Here the analyst uses visualization to identify (1) Clusters—big aggregations of keywords and landing pages; (2) Big Keywords—to show which keywords lead to more of landing pages; (3) Big Landing Pages—which pages have the most different keywords; and (4) Huge Pages—scale up with total visits to see which are the biggest pages together with the landing keywords. Most of these software capabilities are still affiliated with university research centers, but are still easy, intuitive, and useful.

Just as Google measures and analyzes clickstream to examine a customer journey in totally digital interactions, the digital mobilization of the customer via smartphones and mobile apps, and the increasing capability of location tracking using LE beacons, GPS tracking, social media

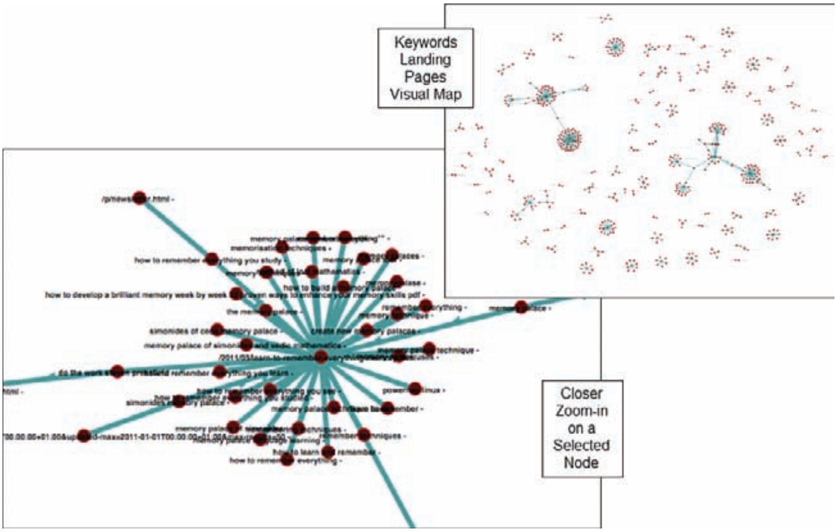

Figure 4.9 Gephi/Google Analytics Visualization of Keywords, Landing Pages

Source: Ruben Berenguel, "Using Gephi with Google Analytics to Visualize Keywords and Landing Pages," www.mostlymaths.net/2011/08/using-gephi-to-visualize-keywords-and.html.

conversations, wi-fi-enabled devices, and the Internet of Things will enable marketers to compile the type of tracking data that will be useful to visualization. This then will provide powerful managerial insight into where marketing resources should be invested to realize the best return on investment.

Designing and Building Customer Journeys

We conclude with a section on how to design and build customer journeys. Blogger David Mannheim wrote: "This is what a customer journey map provides: a story, or multiple stories, on how the customer interacts, or should interact, with your company."[49] Let's be a little more precise. When a brand or marketing team designs a customer journey map, it should represent the brand team's *hypothesis* of how consumers in this segment go about the consumer decision process. The idea of hypotheses sounds like

49. David Mannheim, "The Art of a Good Customer Journey," www.paulolyslager.com/art-of-good-customer-journey-map/?utm_content=buffer029d1&utm_medium=social&utm_source=facebook.com&utm_campaign=buffer.

an artifact of academia, but in fact hypotheses are extremely useful and very practical. My consulting colleagues and I use hypothesis-driven problem-solving in consulting engagements, tapping the best expertise in the industry, and focusing our collective analytical and research resources on what we hypothesize to be the most important dimensions of the problem.

Of course, hypotheses should always be tested using real-world data collection—clickstream data, exploratory depth interviews and focus groups, and descriptive survey and observational data. On the basis of these data, our hypotheses must then be revised and adjusted to fit the patterns of the data we have gathered.

Mannheim recommends:

> *First we must understand the purpose of a customer journey map and what the specific objectives are for your business. A customer journey map, by all intents and purposes, is a story of how a user interacts and engages with your brand. Specifically focusing on online, it indicates the initial contact points, the engagement factors and from there we can indicate how to leverage this information to persuade the user to convert.*

Designing a journey map should depend on three broad purposes:

1. **Strategic Purposes**—to understand where to invest marketing resources to achieve behavioral leverage in influencing customer attitudes and/or customer behaviors. Strategic customer journey maps should be targeted specifically at senior resource officers, such as CMO, CFO, CEO, COO, and other influential members of the brand's C-suite.
2. **Engagement Purposes**—to understand and identify where to focus monitoring of the customer journey, and where to focus engagement, such as social media conversations, LE beacon locations, or other touchpoints.
3. **Organizational Alignment Purposes**—to bring all personnel in the organization into alignment with the customer, centered specifically in a deep understanding and embracing of the customer journey. This of course is an essential dimension of the CMEx construct—being customer centric with a committed focus on customer experience.

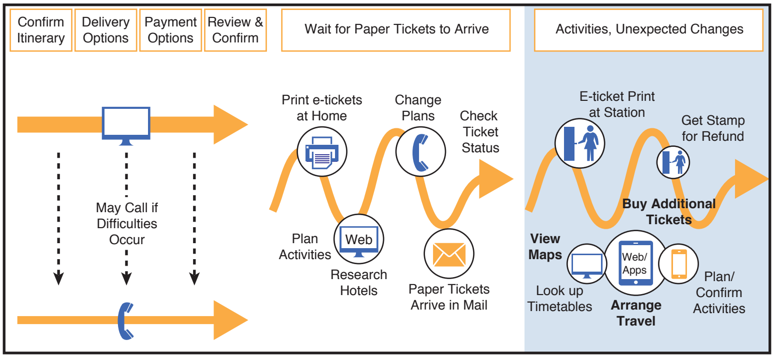

Figure 4.10 One Segment of the Journey Model for Rail Europe

Source: Chris Risdon, "The Anatomy of an Experience Map," http://adaptivepath.org/ideas/the-anatomy-of-an-experience-map/.

Mannheim recommends that a customer journey include personas, a timeline, touchpoints, and channels. "[Use] both qualitative and quantitative [research]. I recommend starting off with the quantitative . . . Google Analytics and the likes are a nice tool to understand large quantities of data and condensing them into segments of insight . . . From there we can validate it with other research methods. User testing is [valuable] to understand how users move [and] engage with your site—see UserConversion.com. Heatmaps also indicate popular areas of attention and interaction—see CrazyEgg.com. Lower level behaviour videos of how users are moving round your site (no audio, not task-based) are perhaps the most useful tool for this requirement—for this . . . use Decibelinsight.com. There are plenty of data-mining technologies and research tools."[50] Figure 4.10 shows a well-known customer journey map for Rail Europe that illustrates the rigor that goes into serious customer journey mapping.

Exercise 4.1 shows a useful exercise for building high-value customer journeys that utilizes the various skills learned in this chapter: customer journeys that include trigger events, initial consideration set, evaluation, moments of purchase, and experiential activities associating with using, such enjoying, advocating, and bonding.

50. David Mannheim, "The Art of a Good Customer Journey," http://www.paulolyslager.com/art-of-good-customer-journey-map/?utm_content=buffer029d1&utm_medium=social&utm_source=facebook.com&utm_campaign=buffer.

Exercise 4.1: Building High-Value Customer Journeys

Exercise

Assemble the brand's customer-facing personnel (marketing, sales, field engineers, customer support personnel) and construct how customers follow possible customer journeys, including your brand, to solve a problem, accomplish a goal, or create or play for enjoyment or pleasure. Identify ways in which digital (e.g., an app, a website tool, social media) could be used to simplify, innnovate, and enable a more enjoyable customer journey experience. Consider for example how Uber decomposed the customer journey for taking a cab ride to enable it to build a ride sharing service based on its popular app.

Step 1: Defining, Identifying High Value Customer Journeys

- Make a list of possible customer journeys that customers use—for example, urgent journeys, or impulse journeys, or preplanned journeys, or regular journeys, or frequent journeys.
- Rank these customer journeys in terms of their value to the customer by allocating 100 points among them. Choose the top ranked, most valuable customer journey to focus on.

Step 2: Building the Customer Journey

- Build the customer journey, including possible journey moments and phases such as a trigger event, initial consideration set, evaluation (gathering information, shopping), micromoments, moments of truth, moment of purchase, and activities relating to enjoying, advocating, and bonding after purchase.
- Build the loyalty loop and detail what the loyalty loop of the customer journey would look like—what activities do customers do in the loyalty loop?

Step 3: Looking for Digital Leverage Points

- Identify key opportunities for digital innovation that leverage the customer's digital assets (like smartphone, tablet, laptop) to create more satisfying and more enjoyable customer journeys.
- Suppose customers had access to a new app designed by your brand. What functions along the customer journey could customers use the app for—to create, share, store, retrieve, organize, get advice, and incorporate outside resources to enable a more satisfying customer journey?

Conclusion

We have seen how customer experience has become the new battleground of the digital economy, where supply chronically exceeds demand, where customers are increasing empowered by digital, and where products and services become quickly commoditized. CMEx is the digital economy paradigm for enabling customers to achieve competitive and differentiated experiences with your brand in ways that are unique and difficult to imitate. We explored the evolution and science of customer journey models, with particular focus on the McKinsey Consumer Decision Map as a well-researched and useful approach. However, in the increasingly digitally mobile economy doing static customer journey maps will become increasingly challenging to do. We need more emphasis and investment in mapping with visualization software—ThinkWithGoogle provides a good starting benchmark for measuring and analyzing, but real-time analytics using big data will ultimately become the table stakes for solid brand marketing in the next few years. In the meantime, developing hypothesized customer journey maps can be useful for strategic, engagement, and organizational alignment purposes.

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5

Managing Moments of Truth and Opt-Out

In this chapter we continue our exploration into an extension of customer journeys—moments of truth, an emerging and central construct in the customer's management of experience. What are moments of truth, and how can they be useful? And what are best-practice ways to identify and measure moments of truth—and other dimensions of the customer experience. These are measurements that matter. And in this chapter too we study opt-out itself, first from the perspective of how customers manage opt-out, and then from the perspective of brands and marketers who must empower customers with tools and capabilities to manage the relationship to ensure that it aligns with their expectations of a preferred brand relationship. Let's begin with moments of truth.

Moments of Truth

On September 21, 2005, Proctor & Gamble published findings from its research into how consumers decide what to buy—introducing an idea that has influenced the field of marketing in the decade since—the *First Moment of Truth*, or FMOT. The *Wall Street Journal* summarized: "This 'first moment of truth,' as P&G calls it, is the three to seven seconds when someone notices an item on a store shelf. Despite spending billions on traditional advertising, the consumer-products giant thinks this instant is one of its most important marketing opportunities. It created a position 18 months ago, Director of First Moment of Truth, or Director of FMOT (pronounced 'EFF-mott') to produce sharper, flashier in-store displays. There's a 15-person FMOT department at

P&G headquarters in Cincinnati as well as 50 FMOT leaders stationed around the world."[1]

The consumer decision journey model, discussed in Chapter 4, "Customer-Managed Experience," begins with a "Trigger" event—a flat tire, a broken water heater, or a realization that your laptop or tablet is slow and out of date. These are initial moments of truth when consumers evoke from memory ideas, possible solutions, brands, and memory scripts about how to go about searching and solving the dissonance caused by this moment. We discussed the importance of aligning our brand marketing with key touchpoints along the consumer journey. The experiences associated with these touchpoints become cumulative as the consumer forms attitudes and judgments about the brand. Consumers thus access these attitudes and memories at this initial moment of truth; and indeed these attitudes may determine the outcome of a customer journey.

In fact P&G identified two key moments in the customer journey and invested to make certain that it surprised, delighted, and was highly influential on consumers at each one. "The best brands consistently win two moments of truth," said A.G. Lafley, P&G's CEO. "The first moment occurs at the store shelf, when a consumer decides whether to buy one brand or another. The second occurs at home, when she uses the brand—and is delighted, or isn't."[2] See Figure 5.1.

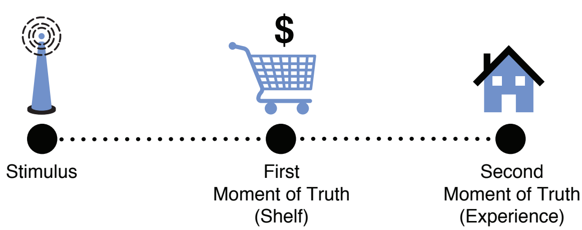

Figure 5.1 P&G's Moments of Truth

Source: Jim Lecinski, *ZMOT: Winning the Zero Moment of Truth,* Google, Inc. 2011, 16.

1. Emily Nelson and Sarah Ellison, "In a Shift, Marketers Beef Up Ad Spending Inside Stores," *Wall Street Journal*, September 21, 2005, http://www.wsj.com/articles/SB112725891535046751.

2. A. G. Lafley, foreword to Kevin Roberts' book *Lovemarks*, quoted in Jim Lecinski, *ZMOT: Winning the Zero Moment of Truth,* Google, Inc., 2011, 11.

My wife recently gave me a surprise birthday present—an Apple Watch. Rather than have it gift-wrapped she instead gave me a bag from the Apple Store—not just an everyday Apple Store bag, but a special all-white, tall, quite slim bag, 11 inches tall, 15 inches wide, and only 3 inches deep, made with stiff glossy paper—with the Apple logo and word “Watch” imprinted on the collar. Laying at the bottom of the bag was a very long all-white handsome heavy paperboard box imprinted with the white Apple logo and “Watch”—13 inches long, 3 inches tall, and 2½ inches deep. Inside this outer box was another long luminous white glossy plastic container with soft rounded edges with white Apple logo engraved in the cover—12 inches long, 2 inches wide, and 1 inch deep. It was as if one were opening consecutive doors with a surprise treasure behind each. I remember thinking: what an unusual package for a watch—most watches come in a squatty looking square box the size of a fist. Opening Apple’s luminous white container I discovered the most simply elegant black timepiece—or more accurately wearable technology device—I had ever seen, with an attractive black wrist band stretched out the length of its 12-inch white glossy container. The packaging strategy of the Apple Watch was so striking that I kept it in my office to share with my students and clients.

This was a moment one might expect with high-end fashion or expensive jewelry—certainly not an everyday watch, nor even an Apple electronic device like an iPhone. This personal presentation of the Apple Watch occurred in the privacy of my home, and clearly was no accident, intended to surprise and delight not once, but four times—from special bag, to distinctive outer box, to luminous interior container, to the elegant length-wise display of Apple Watch itself. A well-known theory from behavioral economics, called Prospect Theory articulated by university scholars Daniel Kahneman, Amos Tversky, and Richard Thaler, suggests that people are affected more by several small gains than by one large gain. This certainly was the case with the sequential presentation of Apple Watch. But more important than sequencing, the striking detail of the packaging was so unusual—visually stunning, arresting, memorable to the smallest detail.

Apple clearly understood the importance of this Moment of Truth, designed to achieve the surprise and delight that P&G advocated persuasively for over a decade ago. Researchers at the Marketing Science Institute (MSI) studied retail shoppers using consumer videocams to reveal how people's dynamic point-of-purchase behavior influences in-store decision making. Their conclusions were revealing with valuable insights into retail moments of truth.

For example, these MSI researchers found that *unplanned purchases increase*:

- ***The more a product is touched.*** Each additional touch increases chances of a purchase by 6.3%.
- ***The longer a purchase is considered.*** Every 10 seconds a product is considered, the likelihood of purchase increases by 2%.
- ***The closer the customer is to the shelf.*** A foot closer increases purchases by 7.5% on average.
- ***When a fewer number of shelf displays are in sight.*** Viewing an additional shelf space reduced a purchase conversion by 8%.
- ***When shoppers can reference external information,*** such as store circulars, data gathered on a smartphone, or interactions with store employees. Referencing external information is associated with a 9.1% jump in unplanned purchases.[3]

The researchers concluded with some intuitive and surprising recommendations: First, "Design the store so that frequently bought items are far away from each other, encouraging patrons to travel more and perhaps leading to more chance encounters with unplanned products." Second, "allow shoppers to focus on one marketing message or brand rather than barraging them with multiple offers . . . when people viewed fewer shelf displays and stood closer to the shelf during their product consideration, they were more likely to buy." Third, "Retailers can encourage longer consideration time, more product touches, and more focused considerations by putting QR (Quick Response) code next to products for people to scan with their smartphones in order to obtain more information, coupons, etc." Fourth, "sending a coupon to a smartphone-equipped customer could reroute them by hundreds of product-packed feet to the other end of the store."[4]

3. Sean Silverthorne, "Consumer Insight at the 'Moment of Truth,' Insights from MSI, Marketing Science Institute, October 22, 2012, http://www.msi.org/articles/consumer-insight-at-the-moment-of-truth/.

4. Ibid.

In 2011 Google identified another moment of truth centered in online search—the *Zero Moment of Truth, ZMOT.* Jim Lecinski of Google described ZMOT in this way:

> *It's a new decision-making moment that takes place a hundred million times a day on mobile phones, laptops and wired devices of all kinds. It's a moment where marketing happens, where information happens, and where consumers make choices that affect the success and failure of nearly every brand in the world. At Google, we call this the Zero Moment of Truth, or simply ZMOT ("ZEE-mot"). ZMOT is that moment when you grab your laptop, mobile phone, or some other wired devices and start learning about a product or service (or potential boyfriend) you're thinking about trying or buying. I'm sure you know what I mean—you probably do web searches like this every day.*[5]

See Figures 5.2 and 5.3 for examples of ZMOT.

According to Google, ZMOT applies to nearly all buying decisions, whether small purchases like Scotch tape, or large purchases like aircraft engine parts—because others ahead of you have already posted comments on which Scotch tape works better for which applications, or comments on the service record and availability of specific aircraft

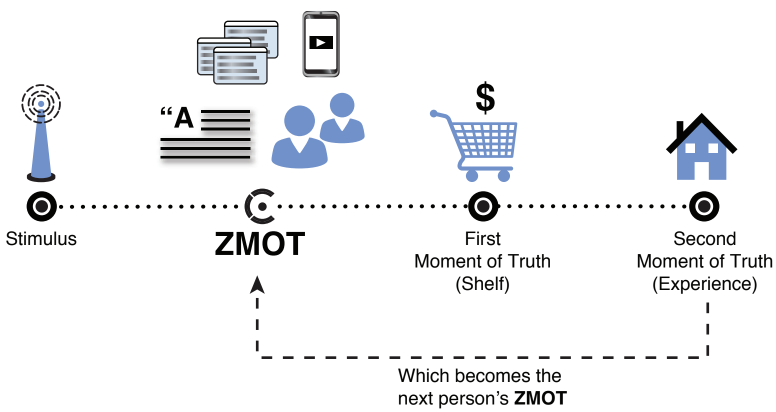

Figure 5.2 Google's Zero Moment of Truth—ZMOT

Source: Jim Lecinski, *ZMOT: Winning the Zero Moment of Truth,* Google, Inc. 2011, 17.

5. Jim Lecinski, *ZMOT: Winning the Zero Moment of Truth*, Google, Inc. 2011, 9-10.

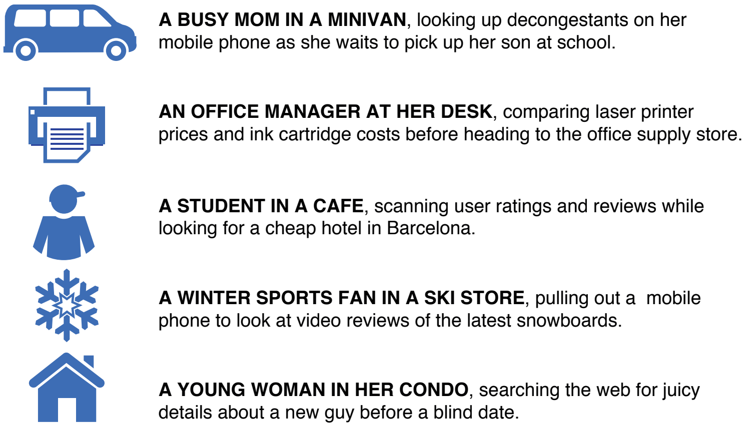

Figure 5.3 Examples of Zero Moments of Truth (ZMOT)

Source: Jim Lecinski, *ZMOT: Winning the Zero Moment of Truth,* Google, Inc. 2011, 10.

engine parts. "That's because the effort is down to zero. You would never get in your car, drive to the library and walk up to the second floor and ask a sleepy librarian for Consumer Reports before buying a 39-cent ballpoint pen. The effort and the item are imbalanced. But now there's no friction. You can pull out your mobile phone and look it up—or leave your own opinion—on the fly," said Lecinski.[6]

More recently, Google researchers published findings from their Consumer Insights research team in which they did research as digital anthropologists or digital psychologists—trying to understand how consumers interact with mobile devices during high-involvement situations—such as needing to repair or replace your car. They asked consumers to monitor their searches, to take "selfies" when they had real situational moments of need, and then Google did a depth interview with them afterwards.

Their central finding was that consumers engaged in what Google researchers called *"micro-moments,"* when consumers steal micro-moments during their busy lives to either quickly and immediately solve a sudden situational problem or they steal various micro-moments here and there, perhaps over days or weeks, to gather and process information that will be useful in larger and longer-term solutions—such as applying for a mortgage, buying a car, or finding a winter vacation rental condo.

6. Ibid., 38.

In one example from their field research, a woman broke her milk frother, creating an immediate moment of high situational involvement in milk frothers—with an intense need to fix or replace her milk frother. Google's Matt Lawson described how she went about finding a solution: "Without even hesitating, without even finishing the dishes she reaches for her phone, she does a search for 'Bodum Milk Frother,' which is the brand that she had. She finds a similar model on Amazon.com, and after reading a couple of reviews with one more click she makes a purchase and is on her way with the rest of her day."[7]

Lawson gave this explanation of micro-moments:

> *Micro-moments are your new "I-want-to-know, I-want-to-go, I-want-to-do, I-want-to-buy" moments. This is our digital reflex, when we want something, when we have an intent rich moment and we reach for the nearest device to us. And because we're reaching out for information these are the moments when we are open to having our preferences shaped, open to help with the decisions we need to make along a journey to accomplish something. And because this is a decision-making behavior it's one that advertisers and marketers really need to pay attention to. Because being there and being relevant to consumers is going to allow you to win their hearts, their minds, and ultimately their dollars.*[8]

Google researchers drew three conclusions from their micro-moment findings: "The first was immediacy . . . our expectations for immediacy have risen, they're higher than ever before. Look at Cathy. She broke her milk frother, she reached for her phone, she replenished it within minutes. [Second,] . . . because of the immediacy, because we're acting in the moment, we're now acting in short bursts or spurts of behavior. . . . And so our expectations for relevancy of advertisers are higher than ever before . . . [And third,] people in their moments are more loyal to their own needs than they are to a specific brand. On your mobile device it's really about am I getting what I want right now, am I getting the information I need in the way that I need it to make it accessible and useful for me. And the brands that do that are the ones that are going to win."[9]

7. "Micro-Moments: The New Battleground for Brands," Google Webinar streamed live on June 11, 2015, YouTube: https://www.youtube.com/watch?v=J2UWJgjszPg.
8. Ibid.
9. Ibid., emphasis mine.

Therefore when enabling an engaging customer journey, marketers should evaluate these key points along the way, these "micro-moments" that are instinctively part of our digital engagement. There are four types of micro-moments, defined by the type of need at that moment (see Figure 5.4):[10]

- ***Knowledge Moments*** (I-want-to-know moments), searching for helpful knowledge-based information content;
- ***Locational Moments*** (I-want-to-go moments), searching for convenient geographic places "near me";
- ***Creative Moments*** (I-want-to-do moments), searching for ideas when doing a task; and
- ***Purchase Moments*** (I-want-to-buy moments), using a digital device in-store or at home to decide what to buy, and to purchase.

Google's micro-moment research shows how the model for managing the brand relationship has changed. Consumers now manage their brand experiences, involving brand relationships—and brand marketers now must adapt to the new reality of empowered and enabled consumer behavior to ensure the brand remains a relevant part of the consumer's portfolio of brand experiences and solutions.

Consider these contrasting examples of ZMOT versus FMOT:[11]

- FMOT: A consumer gets to the store shelf, picks up a bag of chocolate chip morsels, and captures the recipe on the back of the bag, possibly keeping the physical bag to keep a record of the recipe.
  ZMOT: Consumers go online and research the cookie recipe, then buy a bag of morsels from a store shelf.

- FMOT: Consumers arrive at a fast food restaurant and decide on the spot what to order.
  ZMOT: While in the parking lot consumers go online with their smartphones to research their health and value information, before getting in line to place an order.

10. "4 New Moments Every Marketer Should Know," ThinkWithGoogle, https://think.storage.googleapis.com/docs/4-new-moments-every-marketer-should-know.pdf.

11. Adapted from Jenny Liu, "The Zero Moment of Truth," Google CPG Blog, March 29, 2010, http://google-cpg.blogspot.com/2010/03/zero-moment-of-truth.html.

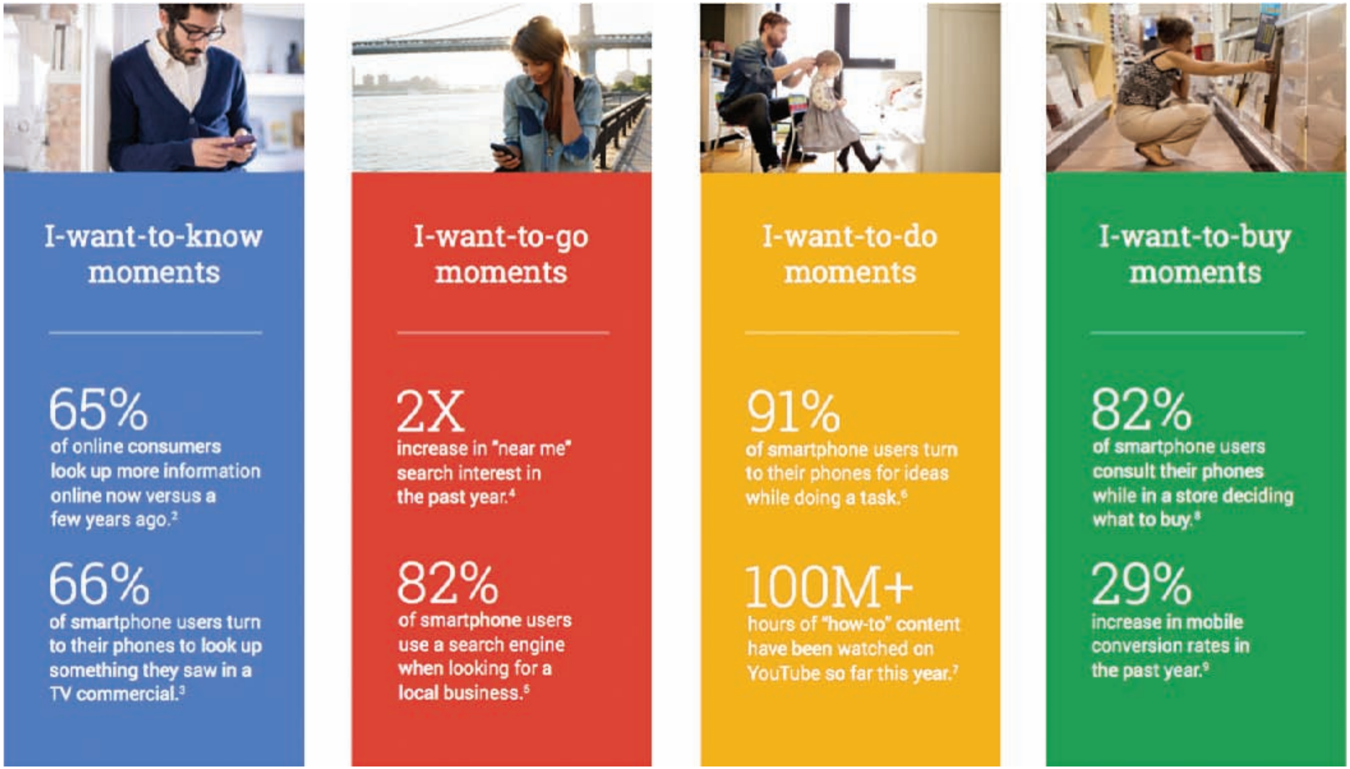

Figure 5.4 Four Types of Micro-Moments, Google

Source: 4 New Moments Every Marketer Should Know, ThinkWithGoogle, https://think.storage.googleapis.com/docs/4-new-moments-every-marketer-should-know.pdf.

- FMOT: Consumers learn about a local brand's promotional event (like free ice cream day) by stumbling upon it, or by seeing a flier posted in the neighborhood.
  ZMOT: Consumers learn of these events in advance through email newsletters, or following brands on sites like Twitter. They then tell hundreds of their friends and family about it in real time with a quick social networking status post.

- FMOT: Consumers wait for their monthly beauty magazine issue to arrive, to learn about the next season's hot looks.
  ZMOT: Consumers go online to find YouTube videos or web content with inspiration for their own looks, and to get tips and tricks from experts—or to take their cues from a favorite celebrity.

Brands need to ensure that they design for valuable moments of truth, just as Apple did with the Apple Watch—from the Zero Moment of Truth at the triggering moment of need, to the First Moment of Truth at retail, to the Second Moment of Truth when the customer experiences the product or service.

Anticipating Triggers, or Moments of Need

Theory behind the consumer decision journey stresses that journeys often begin with a trigger event, sometimes initiated by life events or circumstances—such as a birthday or a funeral; and sometimes initiated spontaneously by the brand—such as a low energy (LE) beacon, like Apple's iBeacon, located at a retail store's entrance that sends to the customer's smartphone a special offer or informs them of a special display located elsewhere in the store. Understanding and anticipating triggers of moments of need is important, for it instantly frames the customer's purchase process up front—shaping how the customer journey is likely to proceed.

Retailers time the designing of their seasonal displays in-store to coincide with seasonal triggers of moments of need when customers begin thinking about upcoming events or seasons—such as spring gardening displays arriving in late winter, or winter snow equipment displays appearing in fall. Special retail sections in retail stores appear 6–8 weeks before holidays such as Christmas, Hanukkah, Easter, or Valentine's Day.

Another moment of need trigger is moving to a new home or residence. Every year approximately 44 million households move in the United States. This is the highest frequency trigger event annually of five well-known life trigger events in which households substantially change their buying behaviors—the other four: marriage, first child, new driver, and starting college. Movers, for example, spend more in three months on their new home than established residents spend in a 4-year period. For example, average spending using a credit card doubles during the month of a person's move, and also in the month following the move.[12] Most of this "new nest hyper-spending" occurs within one to four weeks following the move. Many seek a change in their economic or social status: 30% change health clubs; 35% change garden shops or nurseries; 36% change banks; 50% change dry cleaners; 44% change grocery stores; 31% change hardware stores, and so on. Tapping this lucrative market is extremely valuable to a broad variety of marketers and retail merchants—to protect their relationship with locally moving loyal customers and to target new customers moving in.

In the United States, Imagitas, a marketing service company, controls the channel gateway to the movers market via an exclusive relationship with the U.S. Postal Service. When a prospective mover fills out a change-of-address form at the Post Office, the form is dispatched to Imagitas for processing. On the change-of-address form the consumer can mark and "opt in" to receive marketing offers from sponsoring retailers. Essentially, if a brand wants to sell to movers the best way to do so is through Imagitas by buying an exclusive license to market to movers in your category.

Imagitas' value-based channel partner model wisely uses this "category exclusivity" to reinforce the value it creates—of creating an exclusive communication conduit directly to movers when they will experience a flurry of home furnishing and renovation triggering moments of need. For example, a national retailer such as Home Depot can lock out competitors by buying a category exclusivity contract for 1 or 2 years, or 3 years. Because all contracts expire at the latest in 3 years, the category is constantly put up for bid among category competitors, causing them to consider carefully and regularly the value to them of Imagitas' access to these valuable buyers. Imagitas' client list has included some of the best

12. Jing Yang, "Movin' On Up: How Moving Affects Spending," acxiom Perspectives, January 9, 2014, http://www.acxiom.com/movin-moving-affects-spending/.

names in retailing and marketing (Kroger, JCPenny, Comcast, Bank of America, Home Depot, Staples, and CVS).[13]

It is essential to understand moments of needs and moments of truth, when consumers begin to shape their experiences with life situations and choose the brands they are likely to consider as relevant to these experiences. It is during these defining moments that consumers subconsciously form a *consideration set* of brands that they consider relevant and useful to the situation—for example when you need to get somewhere in the city you might consider: Uber, Lyft, ZipCar, or the local cab company; or when you need to buy a text book for a graduate course: Barnes & Noble, Amazon, your university book store, or a publisher's website like McGraw-Hill.com—whether hardcopy text, or ebook, or customized online learning system; or when you need to check traffic for the commute home: Google Maps, Waze, or Apple Maps. Glenn Llopis, thought leader and former C-suite executive, summarized:

> *We live in an experience-driven world. Consumers gravitate toward those experiences that provide them with the stimulation [and satisfaction] they are looking for. People have become sensitive about how they spend their time and what inspires them to do so. If a brand focuses more on trying to sell consumers their products/services rather than finding ways to creatively engage with them and solve a need, their brand will be short-lived. . . . Consumers are no longer brand loyal. They may be loyal to the engagement experience that a particular brand offers. Once the experiential elements of brand engagement disappear, in many cases, so does the emotional connection consumers have with the brand that was providing them that unique experience.*[14]

Measurements that Matter

Customer journeys and identifying moments of truth or micro-moments are just pieces of the total customer experience picture. It is

13. Gerald E. Smith, "Imagitas Creates and Captures Channel Value using Value-Based Pricing," Case Study for instructional use in the MBA program, Carroll Graduate School of Management, Boston College.

14. Glenn Llopis, "Consumers Are No Longer Brand Loyal," *Forbes*, December 10, 2014, http://www.forbes.com/sites/glennllopis/2014/12/10/consumers-are-no-longer-brand-loyal/.

just as important to measure customer experience, and to know which measures are useful in diagnosing and predicting the success or failure of customer experience. Marketers have long sought to understand the extent to which consumers are positively engaged with their brand via approaches such as pop-up surveys, open rates, click-through rates, and other such techniques. Surveys are helpful but surveys are only a part of the complete picture of measuring consumer experience—and there are many types of surveys to choose from as well.

For organizations that are being challenged to increase revenues, grow their customer base, and acquire more customers, measurable influence has become increasingly important. Though most marketers are focused on short-term measures such as response rates, conversion rates, or sales leads, it is essential to adopt measures of long-term profit potential as well—yet these measures must measure marketing outcomes from the perspective of the customer, while meeting the statistical reliability and validity of accepted measurement protocols.

McKinsey consultants summarized the importance of the new profit-driven, yet customer-centric, view of marketing metrics:

> *One of the hardest challenges to adapt to in the new world of CLM [customer lifecycle management] is moving measurement and reporting from an emphasis on short-term conversion to one that reflects the business impact of engagement . . . As the interaction between the brand and its customers becomes more complex and personalized, the measurement of those interactions needs to be more discreet with the goal of learning and then driving policy and on-the-spot offers and actions. The ultimate goal is to measure the (expected) impact on the Customer Lifetime Value (CLV) of your efforts to boost customer profitability [ROI] and reduce churn. Once established, a CLV metric can then be used in day-to-day decision-making processes. For example, offering a $20 per month promotion to a high-value cable subscriber calling in to end service is a small price to pay to secure longer-term profitability.*[15]

There are four different classes of customer measures that provide brand marketers with a complete picture of the customer, as shown in Figure 5.5.

15. Brian Gregg, Wouter Maes, Andrew Pickersgill, *Marketing's Age of Relevance: How to Read and React to Customer Signals,* McKinsey & Company, June 6, 2014.

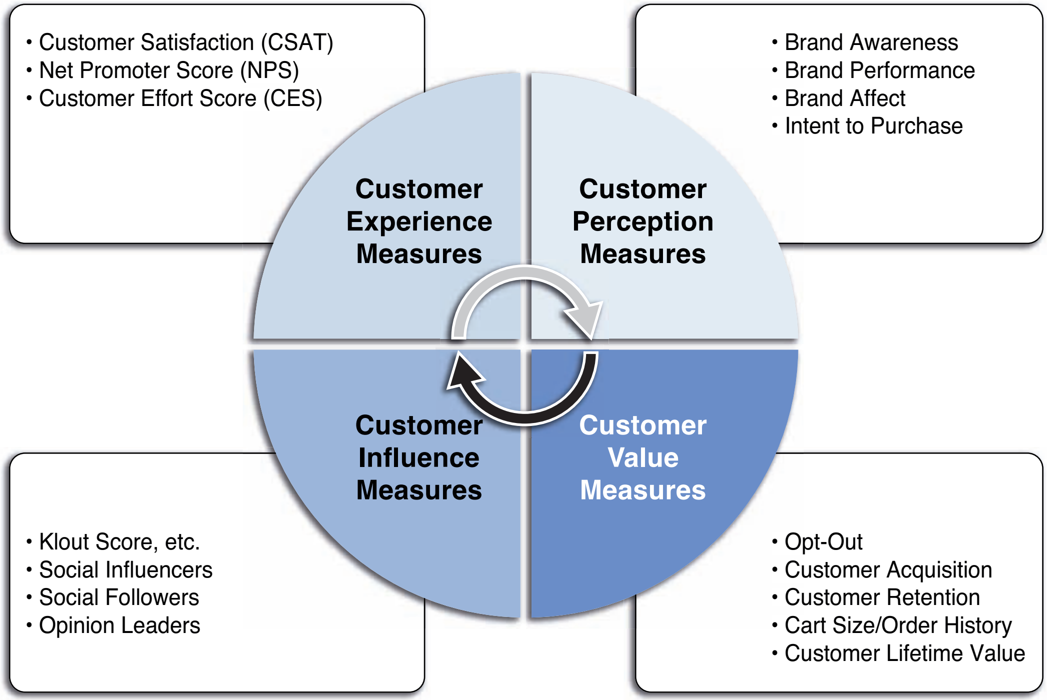

Figure 5.5 Measures of Customer Engagement and Loyalty

1. *Customer Experience Measures*: The oldest and most established measure is *Customer Satisfaction* (CSAT), particularly the American Customer Satisfaction Index version, that is, "Overall, how satisfied are you with [product/service]?," Very Dissatisfied (1) to Very Satisfied (10); Falls short of your expectations (1) to Exceeds your expectations (10), and Not very close to the ideal (1) to Very close to the ideal (10).[16] Empirically CSAT has been strongly associated with a firm's financial performance measured in various ways—ROI, Tobin's *q*, portfolio returns, cash flow.[17]

A Gartner survey of U.S. digital marketers said that CSAT was still considered one of the most important customer measures, yet one that they still didn't know enough about.[18] Nonetheless, CSAT measures are ubiquitous in marketing practice and are often administered so casually and poorly as to render them ineffective. Many retailers pressure salespeople to boost satisfaction scores to impress their manufacturers, pleading with customers to give them top ratings.[19]

Another experience measure is the Net Promoter Score (NPS), "How likely is it that *you would recommend* [company X] to a friend or colleague?," asked on a ten-point scale. It was originally designed as a measure of word of mouth and loyalty influence, but in fact it measures "*intent*" rather than *behavior*. Nonetheless, it is very popular and is used by many large corporations as a simple and reliable customer experience measure.

Similarly, the Customer Effort Score (CES), "How much effort did you personally have to put forth to handle your request?," scored on a scale from 1 (very low effort) to 5 (very high effort), is predicated on the idea that "delighting customers doesn't build loyalty; *reducing their effort*—the

16. *American Customer Satisfaction Index, Methodology Report* by Barbara Everitt Bryant, Ph.D., and Professor Claes Fornell; April 2005.

17. Vikas Mittal and Carly Frennea, "Managing Customer Satisfaction," *Handbook of Marketing Strategy,* eds. Venkatesh Shankar and Gregory S. Carpenter (Northampton, MA: Edward Elgar Publishing), 261–286.

18. See Jake Sorofman and Martin Kign, "Beyond Net Promoter Score: The Evolution of Customer Experience Metrics," August 11, 2015 (Stamford, CT: Gartner, Inc.).

19. See Frederick F. Reichheld, "The One Number You Need to Grow," *Harvard Business Review* (December 2003), 49. The NPS is calculated by subtracting the percentage of "detractors," those scoring a 0 through 6 response, from the percentage of "promoters," those scoring a 9 or 10 response.

work they must do to get their problem solved—*does*."[20] According to its originators, CES was the best predictor of customer loyalty, "defined as customers' intention to keep doing business with the company, increase the amount they spend, or spread positive (not negative) word of mouth"—it was superior to CSAT (a poor predictor) and NPS (a better predictor than CSAT)."[21]

Studies have shown a correlation between higher NPS and profits and growth, but it is difficult to pinpoint the relationship in absolute terms—for example, how raising NPS one point will affect the dollar value of a brand's sales or profits.[22] Moreover, single-dimension experience measures like CSAT or CES are simple and easy to deploy, but are unlikely to capture the complexity of buying in the omni-channel marketplace of the digital economy. They provide little diagnostic insight into problems or issues customers may be experiencing with the brand.

2. *Customer Perception Measures*: These measures have been long established during the twentieth century and are staples of traditional focus group and survey marketing research. They include attitudinal measures such as brand awareness—unaided awareness, for example, "which brands come to mind when you have a headache," or aided awareness, for example, "which of the following brands do you recognize for treating headaches." Also brand perceptions or beliefs about the brand's perceived performance—"How would you rate the brand's performance on speedy delivery?," and so on, and "How important is speedy delivery to you?"

These also include measures of brand affect or feelings—"To what extent would you say you like/dislike the brand?" and intent to purchase—"How likely is it that you will purchase this product/service/brand?" Note that this is quite different from *intent to promote* the product to others via word of mouth, as discussed previously under NPS.

Although grounded in the traditional economy, these perception measures are useful because of their diagnostics—they enable marketers to dissect reasons why customers are satisfied or dissatisfied with the brand. And marketing modelers have built elaborate, and sometimes

20. Matthew Dixon, Karen Freeman, and Nicholas Toman, "Stop Trying to Delight Your Customers," *Harvard Business Review* (July–August 2010), 3, emphasis ours.

21. Ibid.

22. See Jake Sorofman and Martin Kign, "Beyond Net Promoter Score: The Evolution of Customer Experience Metrics," August 11, 2015 (Stamford, CT: Gartner, Inc.).

effective, models to predict and diagnose how to adjust and refine brand positioning using perception measures. However, these measures are purely attitudinal—consumers may say one thing and do another. Nonetheless, like CSAT these simple performance/assessments remain staples of many consumer goods and services marketers—they are easy to administer and useful to diagnose.

3. *Customer Value Measures:* These measures include indicators or estimators of the expected economic value of a customer relationship based on repeat purchases over time. For example, the Opt-Out rate can be a key driver of the proportion of the customer lifetime value (CLV) that is lost or diminished over time, as discussed in Chapter 2, "The Opt-Out Effect."

There are many transaction-based measures of Customer Acquisition and Customer Retention. The approach used by most firms to guide customer acquisition is Cost Per Acquisition—measured via many indicators such as Cost Per Thousand impressions, Click-Through Rate, Cost Per Click, Retention Rate (RR), or Churn Rate (CR), Email Open Rate, Cost Per Lead, Conversion Rate, Cost Per Sale, and Cost Per Customer, and various other measures of customer purchases such as cart size or order history. The trouble with these indicators is that they focus on customer costs rather than *customer value* per acquisition—that is, CLV. They are backward-looking, not forward-looking. This cost-driven mentality causes brands to underspend on acquisition and underachieve as well.[23] And customer retention is important, but *which* customers are retained is more important.

Increasingly brands are using more forward-looking indicators of CLV, such as Customer Gross Profits, Customer Cost to Serve, and RR (or CR), and using these measures to segment, model, and predict CLV based on projected life cycle purchase patterns that identify high- versus low-CLV customers. The key here is to not merely calculate averages across the customer base, but instead work with actual rates for individual customers and smaller segments of customers. Wharton professor Peter Fader said: "There is no 'average' customer, and calculations based on such a notion will always underestimate the value of a customer base. And the difference can be huge!"[24]

23. See Peter Fader, "How Can Customer Centricity Be Profitable?," MSI Conference Fall Board of Trustees Meeting, November 14–15, 2013.

24. Peter Fader, "How Can Customer Centricity Be Profitable?," MSI Conference Fall Board of Trustees Meeting, November 14–15, 2013.

4. ***Customer Influence Measures:*** Customer influence is valuable to measure because the brand is affected monetarily by the customer's spread of positive or negative word of mouth—especially important with social media in the digital economy. Not all customers are equal as advocates, promoters, evangelists, or opinion leaders of your brand—outspoken evangelists can have much greater value to the business than satisfied customers who keep their opinions to themselves.[25]

The Klout Score is one measure of customer influence—essentially the ratio of reactions a person generates relative to the amount of content he/she shares in social media such as Facebook, Twitter, Instagram, Google+, Bing, LinkedIn, and Wikipedia. For example, generating 100 retweets from 10 tweets contributes to ones's Klout Score. Or, "one-hundred retweets from 100 different people contributes more to your Score than do 100 retweets from a single person."[26] And retweets from persons likely to engage in intensive retweets and "likes" diminishes one's Klout score. Other similar methods include PeerIndex, Kred, and Social Mention, which give measures of social strength, passion, reach and sentiment, and many other social measurement systems—CrowdBooster or TwentyFeet.

Some of these scoring systems are blunt force single-score measures that fail to distinguish among types of influence—does one's spiritual influence equate to one's opinions about a product or brand? And they can be hyper influenced by consumers trying to game the influence measurement system—with people retweeting the same articles, content, and themes. "A lot more noise, masquerading as signal. A self-defeating search for quality in an ocean of quantity," said Slate.com.[27] Still, by identifying the influence of a person in a social network and predicting his/her ability to spread word-of-mouth information help the brand target-specific customers or opinion leaders to engage in social media conversations that will influence positive word of mouth.

25. Jake Sorofman and Martin Kign, "Beyond Net Promoter Score: The Evolution of Customer Experience Metrics," August 11, 2015 (Stamford, CT: Gartner, Inc.), 4.

26. "The Klout Score," Klout, Inc., https://klout.com/corp/score.

27. Jon Nathanson, "How Klout Finally Matters," Slate.com, May 1, 2014, http://www.slate.com/articles/business/the_bet/2014/05/klout_is_basically_dead_but_it_finally_matters.html. a

In his book, *Profitable Customer Engagement,* scholar V. Kumar recommends finding, promoting, and measuring customer influence by (1) *Monitoring conversations in social media*—how many conversations are taking place about your brand, involving how many individuals, in which specific social networking channels; (2) *Identifying influential individuals*—they often belong to large networks that enable easy data collection, such as Facebook or Twitter; (3) *Identifying factors shared by influential individuals*—for example, common interests and similarities, clout, and talkativeness; (4) *Locate, recruit, and incentivize potential influencers*—for example, new recipe ideas for a food brand, or naming products, or placing ideas on a pinning "wall" like Pinterest, or discounts, merchandise, free T-shirts, and so forth.[28]

Kumar applied this modeling approach to HokeyPokey, an ice cream brand in India: "We found that out of the total revenue generated from the 'Share Your Brownies' [incentive] campaign, about 23 percent was attributable to conversations on Twitter and about 80 percent was attributable to Facebook . . . HokeyPokey realized increases of 49 percent in brand awareness, 83 percent in ROI and 40 percent in the sales growth rate."[29]

In summary, many firms have fallen into the heuristic habit of relying on a single indicator to measure their customers—such as CSAT, or NPS, or customer acquisition, or customer retention, or churn. But this gives only a limited view of the customer, may never provide a true picture, and fails to link perceptions of customer experience with the brand's financial performance. A better way is to approach measurement more comprehensively and realize the strengths of each approach: the global customer assessments of the customer experience measures such as CSAT, NPS, and CES; the diagnostic inquiry into the strengths and weaknesses of the brand found in the customer perception measures; the monetary and transactional strengths of the customer value measures; and the social media word-of-mouth dimensions of the customer influence measures.

Google researchers stress the importance of aligning research metrics with marketing objectives and KPIs (key performance indicators).

28. V. Kumar, *Profitable Customer Engagement: Concepts, Metrics, and Strategies* (London: Sage), 214-216.

29. V. Kumar, *Profitable Customer Engagement: Concepts, Metrics, and Strategies* (London: Sage), 216.

"Today, with advances in analytics, it's possible to better align your metrics with your core business goals. If your company's biggest goal is to increase profits, then your marketing metrics should show how your campaign contributed to profits."[30] Figure 5.6 shows a summary of KPIs and various marketing metrics, assembled by the Google research team.

They suggest commonsense methods to benchmark and evaluate performance based on your research metrics. "Suppose your colleague has just launched a new video, and she sends around a proud email touting 20,000 views. How do you know whether 20,000 is a 'good' number of views? One way to answer this question is by looking at benchmarks for similar videos launched by your company or other comparable companies. You can also look back at the creative brief. If you launched the video to create awareness among new potential customers, but the majority of these views came from your existing customers, then the video missed the mark. Your colleague's metrics should reveal information about how

Marketing Objective	Create Brand Awareness	Generate Online Leads	Drive Customers to Store
Marketing Channels	TV Video Social Display/Rich Media	Paid and Organic Search Display Online Referrals Website Content	Mobile Web and Apps Email Print Radio
KPIs (Key Performance Indicators)	GRPs Brand Lift Video/Rich Media Engagement	Number of Leads CPA ROAS	In-Store Visits Number of Purchases Purchase Value
Measurement Tools	TV Viewership Consumer Panels Web Analytics Brand Surveys	Conversion Tracking Web Analytics CRM	Mobile App Analytics CRM Transaction Data

Figure 5.6 Some Typical KPIs and How They're Measured

Source: "Measure What Matters Most: A Marketer's Guide to Improving Outcomes by Focusing on Your Best Customers and the Critical Moments in Their Journey," ThinkWithGoogle, "https://think.storage.googleapis.com/docs/measure-what-matters-most_articles.pdf."

30. "Measure What Matters Most: A Marketer's Guide to Improving Outcomes by Focusing on Your Best Customers and the Critical Moments in Their Journey," ThinkWithGoogle, https://think.storage.googleapis.com/docs/measure-what-matters-most_articles.pdf.

many new customers view (and engage with) the video rather than the number of views alone."[31]

Many of the measures we use in marketing show evidence of correlation, but not necessarily causality. Was an increase in investment in one touchpoint truly responsible for the increase in sales? "To show causation, you have to experiment," said Google. "Well-designed experiments are controlled and statistically robust, with a clear test group that sees the content you're investigating and a control group that doesn't. One way of achieving this is through randomized geographic testing: for instance, turning display ads on in some regions and off in others. . . . Geographic testing, of course, isn't the only available experimentation tool. Experimentation can also be used to optimize ad campaigns or website content. Whatever type of testing you're doing, it should be ongoing and iterative. Test one thing at a time, based on a very specific question and hypothesis, and add the findings into your strategy. Then move on to the next test."[32]

Empowering Customers to Manage the Cost of Brand Relationships

A Futurice writer said: "Consider the Netflix front page and how it is always filled with the content we find interesting and desirable. In a similar way, Amazon and other modern web services populate their pages with items that just seem to match your needs. Supercell's mobile game Hay Day offers in-App purchases that seem always to appear at the right time, when needed. None of this happens by chance. At those times you have experienced a form of automated learning about you and your spending habits."[33]

To empowered customers these are the benefits of digital customer relationships, discussed in depth in Chapter 3, "The New Look of Loyalty." "These are the rewards that real-time predictive analytics [are]

31. Ibid.

32. Ibid.

33. "How Does Automatic Learning of Customer Preferences Improve Your Business?" Futurice, June 25, 2014, http://futurice.com/blog/how-does-automatic-learning-of-customer-preferences-improve-your-business.

offering on the customer front," said Futurice. "The math behind the concepts may be complex, yet the basic idea is simple. All predicting is based on the assumption that history repeats itself. If the user has preferred sports content before, he'll likely prefer sports in the future. Beyond this fundamental the rest is bookkeeping and using the toolbox of statistics to produce useful and accurate results. This toolkit allows learning user preferences, analysis of their desires, sorting content by desirability, as well as providing recommendations, personalized advertising and marketing, Google-like searching, and much more. Many of the applications around personalization and desires are very feasible and can hold a very high ROI."[34]

However, as noted in Chapter 2, the cost to the customer of using online digital content is deceptive and implicit, often assumed to be free and minimal. Brands hide the true costs beneath layers of long and detailed privacy policy documents that customers agree to simply avoid having to read such detailed legal information. But the soft costs of using digital content are real—the annoyance of dealing with pop-up advertising that slows down and interrupts online experience, or incessant email that clogs up the users' email account. Other soft costs are more insidious—the exposure to loss of privacy or identity theft as companies carelessly buy and sell your personal information to generate more profitable premium-driven online advertising.

For example, as noted in Chapter 2, Microsoft's new operating system Windows 10 now gathers private information from consumer accounts; scans emails, websites visited, and apps downloaded; and peruses the contents of private folders. Facebook has "announced an optional service for mobile phones that eavesdrops on the sounds in a room to try to identify any music or television shows that might be playing so that a user can share that information with friends."[35] Google has been gathering and linking personal user data across all its product groups—email, website, YouTube, social, and search data streams—since 2012. In 2013 Yahoo! required all of its users to upgrade to its new Yahoo! Mail service, which introduced "automated content scanning and analyzing of your communications content, which Yahoo! uses to deliver product

34. Ibid.

35. Vindu Goel, "Some Privacy, Please? Facebook, Under Pressure, Gets the Message," *The New York Times*, May 22, 2014, http://www.nytimes.com/2014/05/23/technology/facebook-offers-privacy-checkup-to-all-1-28-billion-users.html.

features, relevant advertising, and abuse protection."[36] These high-profile examples of course are just the tip of the iceberg.

It seems that consumers have been perfectly willing to bear these soft costs with barely a whimper or complaint. However, the recent sudden success of ad blocker apps—Peace, 1Blocker, Adblock Mobile, Crystal, VPN in Touch, and Purify Blocker—has signaled a shift in customer sentiment. They are indeed paying attention to the soft costs of digital brand marketers. The very title of this book stresses the threat of customer opt-out if brands fail to provide customers with the ability to manage the costs of their digital relationships with brands.

Opt-In/Out, Up/Down: Empowering Customers to Manage the Soft Costs

What if what really bothered customers was not merely the cost—the soft costs of this personal annoyance and personal risk exposure of digital marketing, but the fact that they don't have the tools, the ability to exercise some means of influence or control over how much, or what type those soft costs will be. A pressing problem with the current state of digital opt-out is that marketers provide customers with few user-friendly alternatives for managing their digital customer relationships. This is an area truly in need of innovation: More visible user preference options, more intuitive preference menus, better automated user preference suggestions based on user activity, easier privacy/preference bundles from which to choose.

In economic exchange, buyers need to know the menu of prices they can choose from to buy or access the products or services they want. If you go to a sporting event you can sit in luxury box seats for thousands of dollars, or in courtside box seats for hundreds of dollars, or in faraway rafter or bleacher seats for much less. If you—the marketer—confuse customers and frustrate their ability to choose from among a menu of various commercial pop-up and message annoyance options—you ultimately force the customer to choose between either staying in an exasperating costly brand relationship or exiting the relationship entirely to seek personal choice elsewhere with another brand.

36. June 13, 2013, "Do I Have to Switch to the New Yahoo! Mail?" *Yahoo.com,* http://help.yahoo.com/kb/index?locale=en_US&y=PROD_MAIL_CLASSIC&page=content&id=SLN8519.

In the BC Empowered Customer Research Study we asked consumers: "If a company provides you with an alternative to opting-out (unsubscribing), such as changing your preferences, or changing the frequency or types of e-mails or ads you would like to receive, would you reconsider your decision to opt-out (unsubscribe)?" Sixty-three percent of respondents said yes. We then followed that question with: "What personal preferences would you adjust or update?" The number one response by far was adjust the frequency of emails received (76%), followed by specific topics of interest for offers received (60%), i.e., relevance. See Figure 5.7. BlueHornet similarly asked consumers about the idea of opting up or down in their email survey research, asked in this way: "If you click to opt out and are presented with the option to 'opt down' (change the frequency, subscription topics, etc.) would you remain on the list?" Forty-seven percent of respondents responded favorably in their 2013 study, compared to 41% a year earlier.

In other words, not only are consumers positively disposed toward alternatives to basic opt-out, but their attitudes are changing over time as they become more aware of possibilities to manage their digital brand

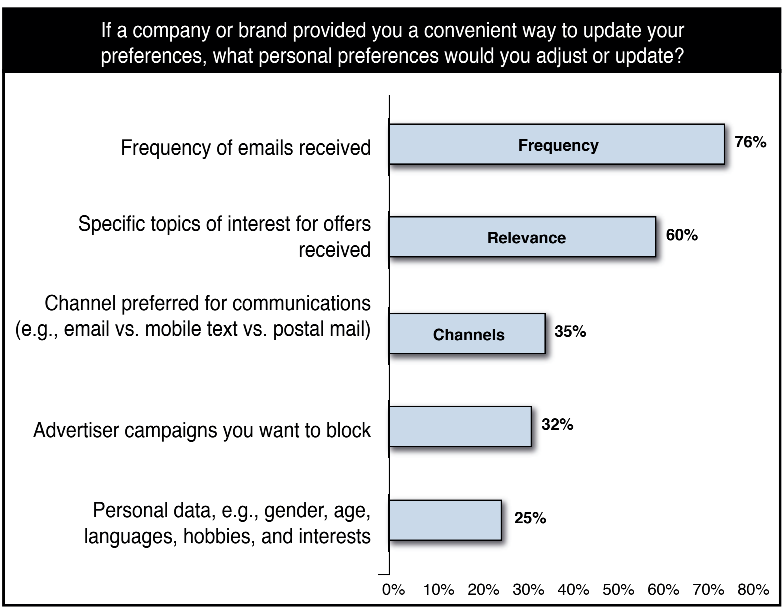

Figure 5.7 The Option to Adjust or Change Preferences

Source: *Boston College Empowered Customer Research Study,* 2015.

relationships. BlueHornet concluded: "Definitely make sure your preference center gives customers ways to manage their number and type of subscriptions, at minimum. Better yet, let them control the frequency, or move to a weekly digest email."[37] These opt-in and opt-out mechanisms enable consumers to control the soft digital prices they pay in terms of distraction or annoyance, or the time spent viewing ads or junk emails, or the time spent organizing and trashing unwanted emails. It's the same idea as consumers tracking coupons to qualify for purchase discounts—inconvenient and a waste of time for some who are willing to pay higher prices, but worth the time and effort for others who are much more price sensitive.

Research by Ghostery's Better Advertising Project found that consumers want at least three things in a digital customer relationship: (1) transparency, (2) control, and (3) customizability.

- 76% of consumers want to see all companies involved in targeting an ad to them;
- 89% of consumers want to pick and choose which individual companies to opt out of;
- 57% of consumers feel more positive toward brands that tell them exactly how they're being targeted;
- 67% of consumers feel better about brands that give them more control;
- 36% of consumers are more likely to purchase from transparent brands.[38]

What customers are calling for is innovation that gives them digital transparency, options they can choose from, digital customer relationships they can control, and digital brand loyalty they can see and trust.

Some online companies are attempting to deal with preference and opt-out management, like LinkedIn, salesforce.com, and Facebook. "Facebook enabled their users to ratchet down the number of messages incoming to their mailboxes by transitioning to a single weekly or daily activity summary email," said tech blogger John Pinson. "So instead of

37. *2013 Consumer Views of Email Marketing,* BlueHornet, San Diego, CA.

38. *Consumer Interactions with Ad Notice,* Evidon, formerly Better Advertising, 2011.

getting notified every time a friend followed up on a comment thread you'd joined in on, you'd get only a single email per day or per week. For active users . . . Facebook simply went ahead and implemented the digest automatically."[39]

Fab.com, an online household products retailer, created an automatic email opt-out campaign to ensure that customers were not being alienated by overly pushy email. Fab.com sent an email that said: "Stop. Alright, we heard you loud and clear. We noticed that you haven't opened our Sunday thru Thursday evening sales emails in a while, so we have gone ahead and **opted you out** of them. The last thing we want is to clutter your inbox. Click **HERE** to opt back in or to customize your email preferences even further."

Fab's automatic opt-out strategy seems irrational. But take another look. First, they appear to be a responsible online marketer concerned about email inbox clutter. Note too that the opt-out campaign didn't go to all their customers—only to those who hadn't opened their "Sunday thru Thursday evening sales emails in a while."[40] This was a precisely targeted messaging strategy aimed at keeping a group of disengaged customers fresh and engaged. However, in a subtle way the campaign is about more than just keeping customers engaged. It is about helping these customers customize their email preferences so that Fab can do a better job of marketing to them.

Best-In-Class Preference Management Experience

The first tool available to marketers to empower customers to manage these soft costs is preference management. Most marketers say that they indeed provide preference management systems for email, pop-up, and outgoing communications. For example, in the BC Empowered Customer Research Study we found that 72% of marketers reported that their company had a preference management process that enabled customers to update their email preferences. Of these, more than three-quarters

39. John Pinson, "Preference Management in the Smartphone Age," messagexchange, January 20, 2012, www.messagesystems.com/blog/pref-mgmt-smartphone/#sthash.M5pxZpYW.dpbs.

40. Juliette Kopecky, "How Opting People OUT Can Actually Improve Your Email Marketing," HubSpot Blogs, March 22, 2013, http://blog.hubspot.com/marketing/opting-people-out-improve-email-marketing.

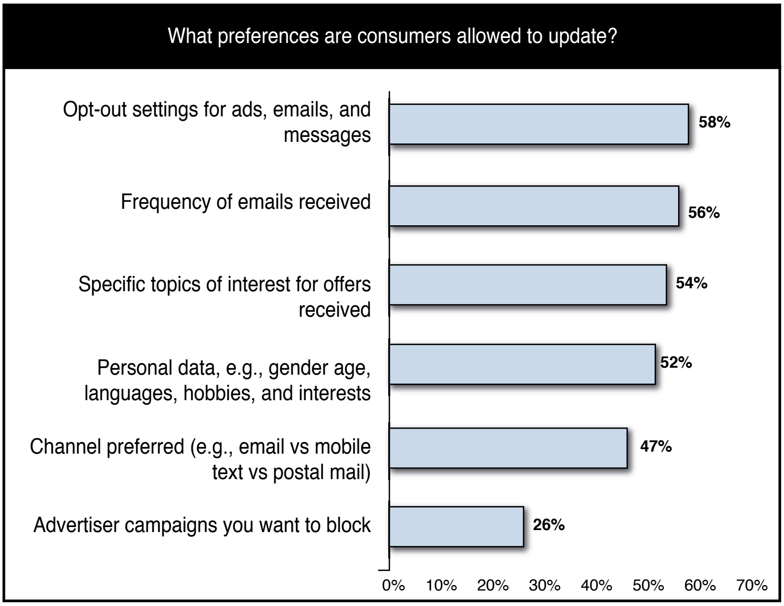

Figure 5.8 Company Has a Preference Management Process

Source: *Boston College Empowered Customer Research Study,* 2015.

(88%) had a system that enabled customers to update their preferences whenever they would like to do so (rather than only "when they first sign up"). They said that their preference management systems enable customers to adjust opt-out settings for ads, emails and messages (58%), adjust the frequency of emails received (56%), adjust the specific topics of interest for offers received (54%), and other essential preferences (see Figure 5.8).

But there again appears to be a disconnect between marketers and their customers. If most marketers (seven of ten) say that they have a preference management system in place, it appears that most customers don't use it. Instead, customers appear to manage message opt-out at the moment they receive them, rather than going to a separate preference management website. In our opt-out research we asked *customers* the methods they used to restrict marketing messages: 66% said they opted out from the email or pop-up ad; but only 32% take the time to "update preferences" (see Figure 5.9).

Are customers unaware of companies' preference management systems, or does the process of getting preference management done involve too

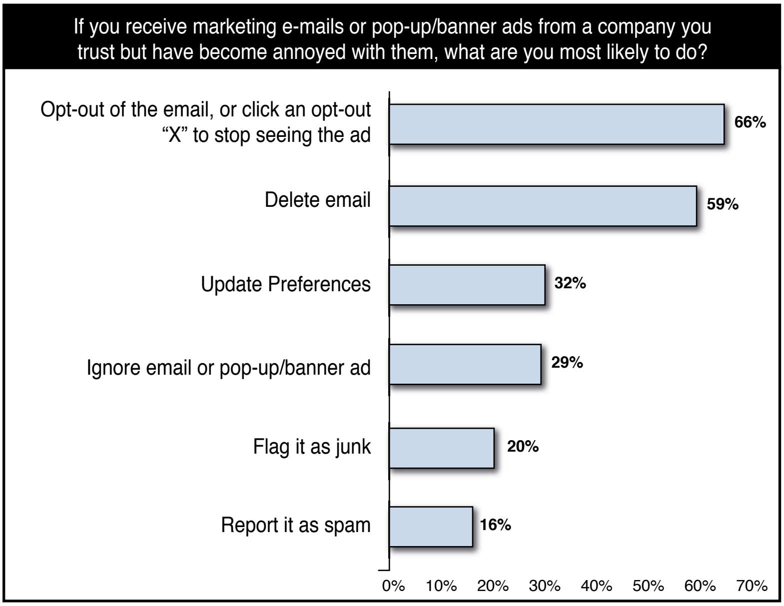

Figure 5.9 Methods Consumers Use to Opt-Out

Source: *Boston College Empowered Customer Research Study,* 2015.

much effort. When you look at the preference management strategies some companies use its easy to understand the disconnect. For example, Foursquare Labs, which makes a popular local search and discovery mobile app, raised concerns because some of its customers connected their Foursquare account to Twitter or Facebook, which could then enable broadcasting of the user's personal location, or what they were doing at that moment—whether they were on a date or with a friend at this location. However, clicking on a link to unsubscribe instantly transported customers to a very long privacy policy webpage with pages of legal text. One of the company's opinion leader customers catalogued some of its subtle but problematic practices:[41]

- Use of low-contrast text for the unsubscribe link—like gray on gray;
- The preferences management link is identified as "Settings," not "Unsubscribe";

41. Nick Donnelly, "Top 9 Worst Email Unsubscribe FAILS (+1 Hero)," Usability Hell: Stuff Should Work, http://usabilityhell.com/post/23041365039/email-unsubscribe-fails-top-10.

- It requires a user login with account and password—“Obviously I can’t frikking remember my Foursquare login—who can—its an app on my phone—reset it is. Which then needs more fannying about on the phone.”
- It then presents a detailed checkbox menu. “You’re confusing me with someone that gives a _____ about this granular level of control. I don’t—most people won’t—just let me unsubscribe from your emails in one click for the sake of my sanity.”

Google has invested in building best-in-class preference management with an online center that is simple and intuitive, spelling out the clear trade-off between advertising based on the customer’s interests (i.e., personal profile and online activity history) and generic advertising that treats the customer as an anonymous person—the customer still receives online advertising but without the risk of exposing personal privacy information (see Figure 5.10).

From the customer’s perspective Google’s preference management is simple and easy to comprehend. It enables the customer to “control signed out ads,” to opt-out and control ads shown anonymously via Google on different browsers, to control ads shown on non-Google sites.

In 2014 Facebook introduced a new privacy checkup tool to users make privacy easier and to help users check the level of privacy their Facebook posts and communications were being posted with—implemented with a blue cartoon dinosaur. “Paddy Underwood, a product manager on Facebook’s privacy team, said more than three-fourths of users who saw the blue dinosaur completed the checkup. Of those, about three-fourths rated it helpful in a Facebook survey,” reported the *Wall Street Journal.* “Underwood said the privacy checkup didn’t affect user behavior in any noticeable way. But that wasn’t the point. By giving people privacy checkups, Facebook aims to steer people away from social-media blunders, such as sharing what was intended as a private message with the whole world. Those mistakes could drive people off Facebook.”[42]

42. Reed Albergotti, “Facebook Rolls Out Privacy Checkups to All 1.3 Billion Users,” *Wall Street Journal*, September 4, 2014, http://blogs.wsj.com/digits/2014/09/04/facebook-rolls-out-privacy-checkups-to-all-1-3-billion-users/.

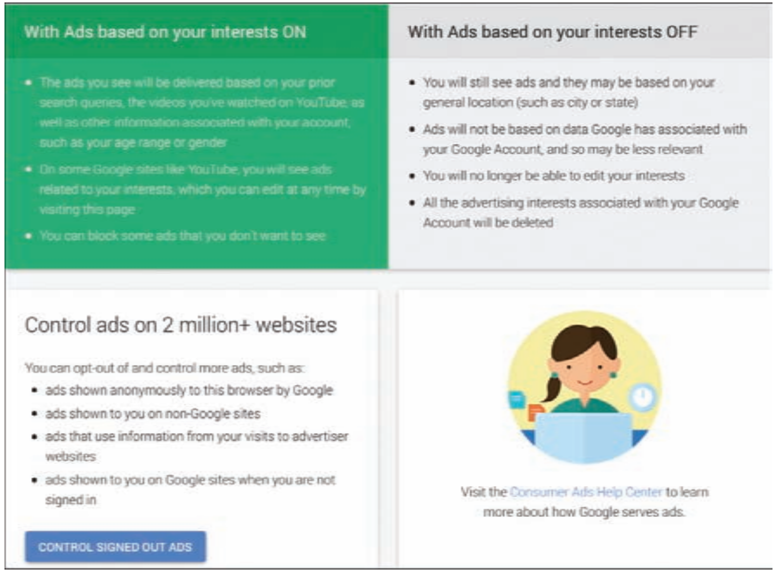

Figure 5.10 Google's Preference Management Center

Source: Control Your Google Ads, "https://www.google.com/settings/u/0/ads/authenticated?hl=en."

The privacy checkup consists of three steps:

> **Step 1, *How You Share:*** "The first step focuses on the way you share: [An] audience selector [is] attached to the box where you post updates. For some it is set to friends only, for others it may be set to public. You can always change it, but this setting is intended to make sure the default setting is the way you want it."
>
> ***Step 2, The Apps Used with Facebook:*** "With this step, you can check the apps that are using your Facebook credentials and delete the ones you no longer use."
>
> ***Step 3, Edit Personal Information:*** "The third and final step allows you to edit personal info and make sure you're sharing it with the right audience: Things such as where you work and where you live are here. You may be surprised to know how much of this you make public and you may want to tailor that to a more appropriate audience."[43]

Facebook users can also prioritize posts based on the people they are interested in. Users can also set the chronological most recent feed as the default to keep receiving the newest updates. Facebook gives people the option to say I don't want to see this or hide posts so that in the future one will start to see less of that on the feed. Posts can be made private or public, notifications can be turned off, and most importantly ads can be blocked. Facebook is also considering creating a dashboard that would make it easier to find and update a range of privacy settings.

"Facebook has made several other moves recently that indicate that it is taking privacy more seriously. Last month, it began a location-sharing feature called Nearby Friends that is optional and provides only a user's general location," reported the *New York Times*. "And it made changes to Facebook Login, a service that allows people to use their Facebook identities to log in to other sites and apps that reduce the amount of information shared outside Facebook, and in some cases shares nothing at all."[44]

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43. Scott Kleinberg, "Facebook Is Going to Send You a Privacy Checkup—Do It to Stay Safe," *Chicago Tribune*, September 10, 2014, www.chicagotribune.com/lifestyles/ct-social-media-facebook-privacy-20140910-column.html.

44. Vindu Goel, "Some Privacy, Please? Facebook, Under Pressure, Gets the Message," *The New York Times*, May 22, 2014, www.nytimes.com/2014/05/23/technology/facebook-offers-privacy-checkup-to-all-1-28-billion-users.html.

The Canadian Global Privacy Enforcement Network (CGPEN) does an annual Privacy Sweep on mobile apps to assess the privacy communications of more than 1,200 smartphone and tablet apps. Here are several notable best-in-class examples as quoted from their report[45] (see Figure 5.11).

- **Shazam Privacy Preferences:** The app requests a number of permissions, including access to identity (accounts), location, photos/media/files, camera/microphone, and device ID/call information. [CGPEN] sweepers were singing the praises of this app because its privacy communications provided clear explanations of individual permissions that left them with a generally

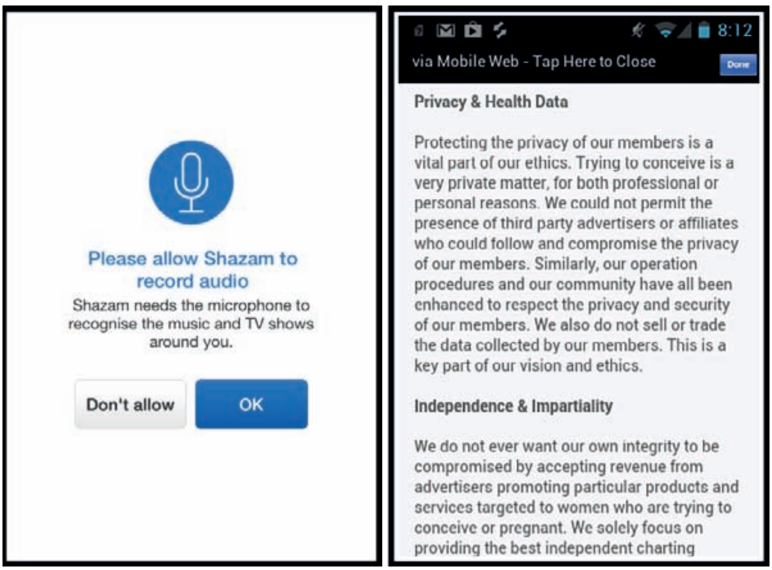

Figure 5.11 Examples of Best-in-Class Privacy Management

Source: "From APP-Laudable to Dis-APP-ointing, Global Mobile App Privacy Sweep Yields Mixed Results," Office of the Privacy Commissioner of Canada, September 9, 2014, http://blog.priv.gc.ca/index.php/2014/09/09/from-app-laudable-to-dis-app-ointing-global-mobile-app-privacy-sweep-yields-mixed-results/.

45. Source: "From APP-laudable to dis-APP-ointing, Global Mobile App Privacy Sweep Yields Mixed Results," Office of the Privacy Commissioner of Canada, September 9, 2014, http://blog.priv.gc.ca/index.php/2014/09/09/from-app-laudable-to-dis-app-ointing-global-mobile-app-privacy-sweep-yields-mixed-results/.

positive feeling about how their personal information would be used. For iOS, the app uses just-in-time notifications before accessing information, for example, why the app needs access to the microphone.

- **Fertility Friend: Ovulation Calendar Privacy Preferences:** Sweepers were particularly pleased that this app explained not only what it would do with the information it collected, but also what it would NOT do. For example, the app acknowledges that the type of information it collects is "extremely sensitive," and promises not to "sell or transmit to others any personally identifiable data" entered on the site. A separate link explains that the site charges for premium services to avoid having to rely on advertisers for revenue. Sweepers also noted that the app's privacy policy was well formatted for the small screen.
- **Trip Advisor: City Guides Privacy Preferences:** The app ultimately earned [praise] . . . for tailoring its privacy communications to the app and to the small screen. The privacy policy is in an easy-to-read font and is well-structured, with a table of contents comprising a list of explanations that users can click on to obtain more information. The policy also provides a separate explanation for information collected by Trip Advisor apps on a mobile device. Our sweepers also gave a shout out to Trip Advisor last year when they examined the company's website and found its privacy policy went the extra step by offering users a detailed explanation of its "Instant Personalization" feature. The feature uses information provided by Facebook to give the user a more customized experience. The company's explanation not only detailed what information was collected and how it was being used, but also provided instructions on how to enable and disable the feature.

Other exemplars of best-in-class preference management include *Hubspot*: customers can control every detail of their subscription and customize their content in an easy accessible way. *Siemens*: enables customers to customize content, based on industry and product moving from general to specific. *Groupon*: Their preference center is grouped into three main categories: location, types of deals, and notifications. Subscribers have the option of changing frequency, and even unsubscribing completely or asking for one email/week. This gives much flexibility in opt-out. *Fab.com* and *Michaels* also have simplification and ease of use in their preference management process. Both have very creative pages and captivating graphics. They study the analytics and metrics wisely and make use of them efficiently.

So if your brand team is new to preference management where should you start? Recall that what consumers care most about with preference management is *Frequency* of messaging received, *Relevance* of the message content, and the *Channel* for communication (for example, email versus mobile versus SMS text), shown earlier in Figure 5.7.

1. ***Frequency:*** Consumers care most of all about message frequency—this is perceived as the highest cost of a digital customer relationship with a brand, cited by 76% of respondents. It is the relentlessness, the persistence of marketing message that is so annoying. Therefore this should be at the top of preference management design focus, to give consumers options to opt up and opt down in terms of message frequency. This might include bundling brand messages into a weekly, similar to what Facebook implemented, summary email, offering different frequency options (daily, weekly, every two weeks, monthly, or instant updates), and offering a relationship pause option—to stop message flow for a period. However, consumers care about frequency on different dimensions, caring not only about the quantity of messaging received, but also about the timing of when messages are sent—how many messages per day, per week, and so on. Note too that some consumers may prefer greater message frequency, and others may prefer less. Some may prefer weekly messaging, others daily. That is the point of preference management, to enable customers to customize the message experience to be right for their preferences—to require the correct trade-off of message intensity for value received.
2. ***Relevance:*** Consumers care second about message relevance—this is perceived as another high cost of a digital customer relationship with a brand, cited by 60% of respondents. Consumers are annoyed by receiving irrelevant content; it is disruptive and distracting and perceived as a pure waste of time. However, content that is relevant and interesting is not only acceptable, but welcomed and even looked forward to. Relevance includes personalization of messaging, with content that matches the interest

profile of the customer. "The same insight that fills pages with interesting content can also be used for targeted advertising and offers. Personalized offers are not inherently different from personalized content and they offer the same benefits. People are much more likely to enjoy and be tempted by the things they desire. I enjoy reading offers for the coolest and shiniest gadgets and I don't mind hearing more about them," said Futurice. "Heck, I even expect and welcome it as a part of good customer service. . . . This is why recommendations, personalized content, personalized advertising and personalized searches are increasingly common and why they are employed by the winning services and products."[46] Google's best-in-class system uses checkboxes, a simple and intuitive way.

3. ***Channel:*** Consumers care third about channel delivery—this is perceived as a moderate cost of a digital customer relationship with a brand, cited by 35% of respondents. Consider customers who receive a telemarketing call on their cell phone—extremely annoying because your cell phone is with you always in private situations or public, but especially offensive knowing that a telemarketer has your cell number hardwired into their marketing system and therefore has the ability to disrupt your life at any moment. The same is true for pop-up ads, even from brands that might be preferred or liked, that interrupt mobile browsing with a full-screen momentary ad. Where do consumers prefer to receive their messaging—by email where they can easily catalogue and sort into handy folders, or via Twitter where the text content is limited and easy to get the gist of in a quick glance. On the other hand, all this may depend as well on the content being delivered. A consumer may be pleased to get a text informing her of a potential fraudulent use of a bank card or be notified of a data usage limit approaching on a mobile phone plan. But receiving a notice that "your bank statement is available online" from the same bank may be viewed as particularly annoying and a waste of text time and message quantity used.

46. "How Does Automatic Learning of Customer Preferences Improve Your Business?" Futurice, June 25, 2014, http://futurice.com/blog/how-does-automatic-learning-of-customer-preferences-improve-your-business.

As shown in Figure 5.7, consumers care also about blocking ad campaigns (cited by 32% of respondents) and adjusting the visibility settings on their personal profile data—languages, hobbies, interests, age, and gender (cited by 25% of respondents). These are also considered moderate cost elements in the digital customer relationship with the brand. In general, customers should be able to easily opt in, opt out, opt up, and opt down; update their information; tailor preferences for different devices; and have different checkbox alternatives and options to choose from. Designing in these options at the moment of *opt-in* is essential using a registration page that offers at least four clear categories of opt-in preferences:

(1) Message Content

(2) Message Frequency

(3) Message Channels

(4) Message Format

Conclusion

As we've seen, enabling customers to manage their experiences, particularly their experiences with your brand, is as essential to a digital customer relationship with a brand as oxygen is for personal health and well-being. Failure to provide the tools and capabilities required to manage the relationship with your brand produces a "fly-in-the-ointment" effect, where your brand—deficient in digital tools—is viewed against a backdrop of other digitally savvy brands, producing what psychologists call a "contrast effect." Such brands get noticed more, feel uncomfortable in the milieu of other brands in the customer's consideration set, and eventually are abandoned as no longer being relevant. This applies to assisting customers when they encounter a moment of truth—to be there at precisely that moment with timely ideas, solutions, and offers. They won't know that it is a "moment of truth" by label, but they will experience and feel that it is indeed a moment of truth when the intensity of personal need is great and needs resolution, sometimes immediately.

Knowing the best research metrics and methods to use is vital in diagnosing and anticipating moments of need and where they occur in a customer's journey. Finally, all important, but often overlooked by marketers, is empowering customers with the ability to manage the relationship they have with your brand—to opt out, opt in, opt up, or opt down. We've looked at best practices in the field of preference management—enabling customers to tailor and customize their relationship, especially by focusing on the three most costly dimensions of being in a relationship with a brand: Frequency, Relevancy, and Channels desired for messaging and communication.

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The New Brand Manager in the Digital Economy

With the perspectives of the new customer managed experience (CMEx) framework in mind, we will place a magnifying glass upon how this relates to the role of the brand manager in the rapidly evolving digital economy. In doing so, we will take a deep dive into the management of brands in the twenty-first century, into the psyche of brand marketers, of brand management teams, and of digital management teams, to see how they are responding to the swift and pervasive rising tide of digital innovation.

Let's begin with a historic frame of reference. In 1994 Ed Artzt, then CEO of Procter & Gamble (P&G), gave a speech to advertisers that even today is considered seminal, a prophetic call to industry power brokers to get in front of the threat of changing technologies—"if we don't influence them—and if we don't harness them—loyalty to our brands could suffer in the long term."[1] Here's his logic:

> *Procter & Gamble, in a given year, has to sell 400 million boxes of Tide—and to do that, we have to reach our consumers over and over throughout the year. Frequency and depth of sale in advertising are critical to preserving loyalty to frequently purchased brands like ours. For example, in any given month, P&G brands like Tide and Crest and Pantene will reach more than 90% of their target audience six or seven times. The only way you can achieve that kind of impact is with broad-reach television—which is why we spend almost 90% of our \$3 billion advertising budget on TV, and why we simply must preserve our ability to use television as our principal advertising medium.*[2]

1. "The Future of Advertising" Speech by P&G's Ed Artzt, 1994, Advertising Lab, http://adverlab.blogspot.com/2011/04/future-of-advertising-speech-by-p-ed.html.
2. Ibid.

In Artzt's mind the greatest threat to the established order of traditional consumer packaged goods (CPG) marketing was giving consumers "what they want and potentially at a price they're willing to pay. If user fees replace advertising revenue, we're in serious trouble."[3] Imagine how Artzt's successors at P&G viewed the fragmentation of consumer goods marketing with all kinds of online start-ups that spend little on television advertising, but steal away previously loyal customers with new free or fee-based subscription models. In razors and blades, for example, long dominated by P&G's Gillette subsidiary with 68% of the U.S. men's market, the online Dollar Shave Club launched in 2012 on YouTube with an edgy video introducing a new subscription business model: fresh blades sent to your door for $1 a month—today "$10 or less" each month, less than half the price of Gillette cartridges. The video quickly garnered 4 million views, and today has 21 million views with 107,573 likes. Dollar Shave Club today has 2.4 million members and roughly 6% of razor and cartridge sales, and spends a fraction of Gillette's marketing budget.[4]

But Dollar Shave Club is not alone: Harry's Razors for Men operates on the same subscription fee model and has raised more than $200 million in start-up capital and purchased a 93-year-old German razor blade factory to roll their own high-quality blades, making them an unexpected competitive manufacturer threat to Gillette and Schick.[5] Bevel, another razor brand, sells razor kit subscriptions geared toward men of color who experience painful razor burn.[6] Other online razor entrants include ShaveMOB, Manpacks, Club ShaveMate, and 800razors.com. Finally, in a defensive move, in 2014, Gillette introduced its own online service, the Gillette Shave Club, through its PGestore.com website. During this period

3. Ibid.

4. Paul Ziobro, "Gillette Subscription Service Takes Aim At Dollar Shave Club," *The Wall Street Journal,* April 29, 2014, http://blogs.wsj.com/corporate-intelligence/2014/04/29/gillette-subscription-service-takes-aim-at-dollar-shave-club/. Taryn Luna, "Can Gillette Stay Ahead? Subscription plans target shaving giant on price," *The Boston Globe,* November 2, 2015, http://www.bostonglobe.com/business/2015/11/01/razor-wars-heating/RI4AtMZqmedmzJ0011tWHI/story.html.

5. "Hype Check: Harry's Razors," Dose of Digital, http://www.doseofdigital.com/2014/12/hype-check-harrys-razors/.

6. "Razor Startup Harry's Raises $75 Million, Pushing It Over $200 Million. Say What?" re/code.net, http://recode.net/2014/12/03/razor-startup-harrys-raises-75-million-pushing-it-over-200-million-say-what/.

the company's global grooming business had been one of P&G's worst performing units, with sales down 14% in third quarter 2015 versus 2014.[7]

So how have brand management teams at P&G and other marketing firms responded to the new digital economy? My research team and I did depth interviews with teams of brand managers, digital managers, and agency personnel. I wanted to know what brand management meant today in the digital economy. Who manages digital and what is their role in managing and building the brand? What have been their successes and challenges? Most important, I wanted to know how the customer–brand relationship was changing with the impact of digital.

The Impact of the Digital Economy on Brand Management

As my research plumbed the depths of brand management and digital marketing management, I was struck by how much the older brand management models, last-century mindsets have continued to influence marketing in the present-day twenty-first century. For example, in Ed Artzt's world of 1994 marketing managers drove high-frequency purchases of consumer goods through high-volume retail channels—mass marketers, grocers, specialty stores—with relentless television advertising. Reaching 90% of target customers six or seven times each month (that is, 540–630 GRPs , Gross Rating Points, a measure of the volume of message impressions delivered to the market) brand managers drove sales, brand awareness, repeat purchase and loyalty, and brand differentiation through message content. Ninety percent of the firm's marketing investment was spent on television advertising.

As shown in Figure 6.1, the traditional brand managers job was strategically focused on defining brand strategy, then defining key components of brand strategy in six substrategy theaters: *message strategy*—the creative content of messaging; *media strategy*—the media channels chosen to deliver the message; *digital strategy*—social media,

7. Paul Ziobro, "Gillette Subscription Service Takes Aim at Dollar Shave Club," *The Wall Street Journal,* April 29, 2014, http://blogs.wsj.com/corporate-intelligence/2014/04/29/gillette-subscription-service-takes-aim-at-dollar-shave-club/. Taryn Luna, "Can Gillette Stay Ahead? Subscription Plans Target Shaving Giant on Price," *The Boston Globe,* November 2, 2015, http://www.bostonglobe.com/business/2015/11/01/razor-wars-heating/RI4AtMZqmedmzJ0011tWHI/story.html.

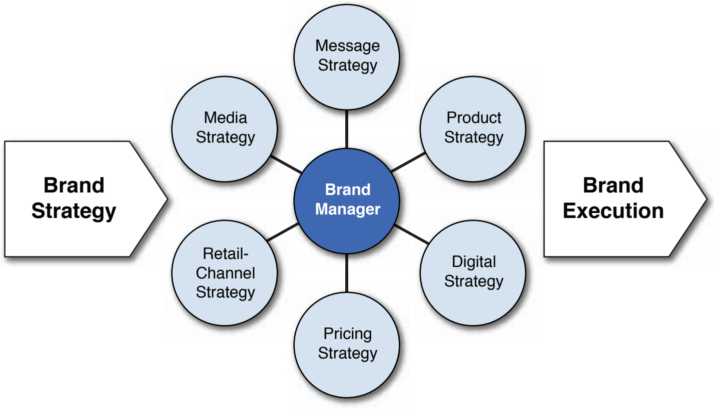

Figure 6.1 Traditional Brand Management

blogging, and search engine optimization (SEO); *product strategy*—the product's design with key features and benefits; *retailer-channel strategy*—the mix of channels chosen to distribute the product into the marketplace; and *pricing strategy*—the price points chosen to target customer segments and realize a return on our marketing investment. The brand manager's world revolved around defining positioning strategy, approving creative executions, shooting television commercials, allocating media budgets, and tracking brand performance.

But the digital economy is forcing brand management to change in fundamental ways. For example, Procter & Gamble changed the titles of its marketing personnel from *marketing* directors and associate marketing directors (they had been "advertising managers" until the mid-1990s) now to *brand* directors and associate brand directors in 2014.

P&G asked an essential question: *Who in the organization owns the brand?* Who is in charge of brand innovation, brand design, brand marketing, and brand research? Prior to the change it wasn't clear because brand management had been fractured into a series of marketing specialties. In retrospect P&G had migrated from a 1970s/1980s *advertising-centric model* that was purely functional ("advertising managers" who drove brand success through advertising), to a 1990s/2000s *specialty-centric model* centered in marketing skills and specialists (various "marketing managers" who managed marketing programs, brand-building programs, promotions programs, and so on) as media and shopping channels fragmented (see Figure 6.2). Then P&G led another migration,

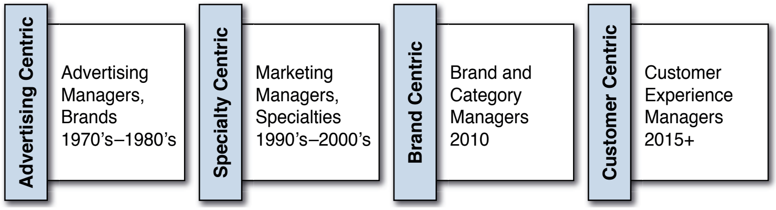

Figure 6.2 The Evolution of Brand Marketing

from a 1990s/2000s marketing specialty-centric model to a 2010s *brand-centric model* that relies more on brand and category managers than marketing specialists. Why the latest shift? To "unify [that is, centralize] brand-building resources . . . to make faster decisions, and . . . free up time for creativity and better execution."[8] These are essential moves, recognizing that in the digital economy the skill set for marketing success is changing rapidly—speed, agility, flexibility, and nimbleness.

McKinsey consultants confirmed the sensibility of these brand-focused directions in a 2012 study: "[C]ompanies in which brand/category managers account for [a] majority of the marketing staff are both more efficient and more effective than companies with a higher portion of [marketing] specialists . . . too high a degree of specialization in marketing can disperse expertise and, in turn, decision-making authority. Decision making becomes slow and complex, hindering the marketing function from being nimble and responsive, and ultimately limiting its ability to drive growth."[9]

In our depth interviews I saw these issues at play, especially with digital marketing, as companies wrestled with brand agility and decision making versus brand protection in the wide-open spaces of social media. At one company the brand management team confidently noted a new strategic focus on their brand; it was "becoming a priority brand, the fastest growing brand" within the firm's broader brand portfolio. Brand managers were "responsible for the 5-year brand strategy and setting up the vision . . . spend[ing] a lot of time figuring out the positioning plan for the next 5 years. They work with new agencies to create media plans

8. Ibid.

9. Elizabeth Burn, Mario Lazzaroni, Carl-Martin, Lindahl, and Monica Murarka, *Designing a Winning Consumer Goods Organization* (McKinsey & Company, February 2012), 4–5.

or see if we need to have an overhaul of our positioning." They "also look to see where the marketing dollars will go, when to run which [advertising] spots. So like, how are we going to spend this much money on '[brand image]' and '[product]' spots."

In this company digital marketing was placed outside of marketing within the public affairs division. "There is one person who manages some of the brand's digital stuff. But I don't even understand his relationship," said the brand manager. "Every month [the digital agency] sends a list of what they will be posting [on Facebook, and Pinterest] and I [the brand manager] approve." What is the logic behind Public Affairs and digital marketing, we asked. "There might be a need for monitoring, outside of the brands, since there is so much co-creation and impact from external sources in response to an internal post. I can see why it may be needed . . . The brand team is not going to be responsible for [social media] posts . . . . I'm creating the products we are talking about, and the programs we are pushing, but I won't ever post."

Yet this intricate configuration—with digital responsibility dispersed across the brand team, public affairs, and outside digital agencies proved unwieldy. The brand manager finally retorted: "This is not agile!! . . . this intense monitoring [by Public Affairs] needs to go away. It is extremely cumbersome . . . . The current processes are not really effective and don't allow for the brand to move quickly."

"Consumer-packaged-goods [firms] are the least developed digitally and they spend so much money on advertising and marketing . . . [with] trade [promotions] and TV [advertising as] primary drivers," said a group leader at a large digital marketing agency we interviewed. At the same time, when it comes to digital and social media "companies in general are uncomfortable with brands taking feedback and allowing consumers to create." We saw this with the above marketing organization, housing digital branding with the public affairs group, as brand managers distanced themselves from digital branding—digital is something that is delegated to the agency, and housed in public affairs to protect the brand from the uncontrollable forces of digital. Digital specialists at the agency interacted with customers—through blogs and social media posts; brand managers interacted with brand strategy and traditional advertising media and promotions.

"Yet today more than ever," said the digital agency leader interviewed above, "dialogue is much more important to *create* the brand."

What an essential distinction: that customer dialogue is vital to creating the brand—not only the product through customer research, but especially the brand through customer engagement—because in the digital economy brand image is vitally driven by the conversations, and interactions, and engagements that customers have with the brand, and about the brand. In the digital economy customers are pushing firms to migrate to a new model—to a *customer-centric model* that requires rapid adapting, adjusting, and bending to customer needs and desires driven through both digital and analog engagement—online, mobile, retail, or other experiential situation. Figure 6.2, cited above, summarizes how, in just a few short years, brand marketing has evolved now beyond brand centricity to customer centricity.

Johnson & Johnson's Clean & Clear acne and skin care brand team found that among their primary teenage buyers 70% of teens own a smartphone and 92% engage with at least two devices simultaneously, but digital video was very influential on their perceptions as girls searched for skin care tips. The brand team developed a "two-screen strategy," with YouTube videos as the first screen, and television as the second. Kacey Dreby, group brand director at J&J commented on their social media strategy:

> *[W]e did a quick audit to see where we needed to improve our process to be more nimble. We realized we had to find a way to accelerate our regulatory and legal review processes. So, we worked with our legal team to set up a system that categorized our content into high risk and low risk. We trained our team on what needs legal review (product or competitive claims, for example) and what doesn't (a tweet that says, "OMG! The view from the red carpet is glorious"). Those relevant, fun conversations that are important to our audience are really low risk for our brand. For the moments when we do need a fast review, we put a special legal team in place that has a direct line to our social team.*[10]

They now create 120 pieces of video content annually, which they facilitate by categorizing their video content into three buckets: "Hero" content is flagship or tentpole content that may go into a 30-second TV spot and/or run as an extension version on YouTube. "Hub" content is broader

10. David Morgensen, *Video Marketing Lessons from CLEAN & CLEAR®*, ThinkwithGoogle, March 2015, 5.

in reach, lifestyle, or passion focused. "Help" content is product or functionally focused that consumers are already coming to you for—like product demos. Dave Morgensen, head of Google B2B Product Marketing that consulted with J&J on their video strategy, summarized:

> *At a higher level, I've also been surprised at just how well a shift to digital-first has paid off for us. I think we all hoped it would work, but we didn't realize how well. CLEAN & CLEAR® went from losing market share to gaining it. As a result, we're leading the way on a new model for video marketing for the larger organization of Johnson & Johnson Consumer Companies.*[11]

As the J&J case illustrates, the customer-centric model requires a new kind of brand engagement with customer experience managers responsible for the achievement of a rich total customer experience through personalization, customer engagement, and through breadth of relationship touchpoints.

Yet, even as we speak of customer centric and customer engagement most marketing teams are still stuck in a last-century marketing mindset. "[In] most companies the organizational structure of the marketing function hasn't changed since the practice of brand management emerged, more than 40 years ago. Hidebound hierarchies from another era are still commonplace," said Marc de Swaan Arons and Frank van den Driest of the EffectiveBrand consultancy, and Keith Weed, CMO of Unilever, in a recent *Harvard Business Review* article.[12] See Box 6.1.

In their study of 10,000-plus marketers from 92 countries they isolate overperformer and underperformer businesses based on 3-year revenue growth versus competitors. Their overarching conclusion: "High performers excelled in their ability to *leverage customer insight,* communicate a societal purpose, and *deliver a rich customer experience.* They also demonstrated superior cross-functional collaboration, strategic focus,

11. David Morgensen, *Video Marketing Lessons from CLEAN & CLEAR®*, ThinkwithGoogle, March 2015, 8.
12. Marc de Swaan Arons, Frank van den Driest, and Keith Weed, "The Ultimate Marketing Machine: Most Marketing Organizations Are Stuck in the Last Century. Here's How the Best Meet the Challenges of the Digital Age," *Harvard Business Review,* July–August 2014, 56.

Box 6.1: Market Change and Marketing Stasis

In the past decade, what marketers do to engage customers has changed almost beyond recognition. With the possible exception of information technology, we can't think of another discipline that has evolved so quickly. Tools and strategies that were cutting-edge just a few years ago are fast becoming obsolete, and new approaches are appearing every day. Yet in most companies the organizational structure of the marketing function hasn't changed since the practice of brand management emerged, more than 40 years ago. Hidebound hierarchies from another era are still commonplace.

Source: Marc de Swaan Arons, Frank van den Driest and Keith Weed, "The Ultimate Marketing Machine: Most Marketing Organizations Are Stuck in the Last Century. Here's How the Best Meet the Challenges of the Digital Age," *Harvard Business Review* (July–August 2014), 56.

organizational agility, and training. New, fluid organizational structures facilitate these capabilities."[13] For example, customers find bills frustrating and confusing, or customers find new product setup complex requiring frequent technical support calls. To address these types of situations, these authors suggest organizing into customer experience teams staffed with three types of contributing members:

- ***"Think" Team Members,*** with *skills in data analytics*—such as a market data analyst, data architect, data modeler, or digital privacy analyst.
- ***"Feel" Team Members,*** with *skills in customer engagement*—such as a customer service representative, online community manager, social media manager, member engagement coordinator, PR executive, or usability specialist.
- ***"Do" Team Members,*** with *skills in content and production*—such as concept creator, designer, marketing content manager, digital content strategist, digital studio producer, or web design production specialist.

These teams are led by senior leaders with a strategic stewardship over customers and brands—chief experience officers, global brand leaders, and CMOs who act as orchestrators to solve customer problems.

13. Ibid., 57. Emphasis mine.

The Customer and the Brand Manager in the Digital Economy

In my research, I was especially interested in several foundational research questions, all centered in the newly emerging role of the customer in the digital economy, and how this affects the role of brand managers. Here are the questions my team asked:

> *In the current digital world how would you describe the role of the consumer in the brand relationship?*
>
> *Where will this evolve in the future?*
>
> *Do you think consumers will ever manage the brand relationship?*

The results from our field research were important with seminal insights into how the relationship between brand managers and customers is evolving in the age of the empowered customer. Digital offers so many ways for customers to engage with the brand—and they insist that brands engage them by giving them digital assets and touchpoints—that enable opportunities for them to offer advice, voice their opinion, share their likes and dislikes, influence brand decisions—to customize the brand experience to be more of what they want it to be. Marketing managers often think that customers feel driven to be in brand relationships—but in fact customers are driven to find highly satisfying and delightful brand experiences, which forms the foundational basis for the customer–brand relationship.

First, my research suggested that while technological change is seen as relentless and pervasive, what is just as palpable is the sense that marketing has become vitally customer centric. One brand manager said: "I think brands have to listen to what consumers are saying and pivot around that to make it part of their strategy. Consumers have so much more power than ever before and brands won't exist without respecting that relationship." Another brand manager in a different company noted how they have engaged with consumers to get insights into design and development:

> *The consumer is king; consumers are everything. Since the inception of [one new product] 3 years ago the brand managers have talked to over 1,000 girls and over 700 moms to determine everything from product*

packaging to marketing voice. They run through every decision that they make with their consumers using digital channels. Digital platforms open up an immediate dialogue to have real-time conversations to determine what they want to see and [we] can provide that product turnaround in 60–90 days.

A director of brand strategy said: "Consumers call the shots, they choose whether to listen or not. They can mute your ad, fast forward, or skip. To combat this, your brand management must be relevant. It must be customer centric from start to finish—from [merchandise] buying to end marketing. Consumers don't always know what they want. Brand managers should be creating what consumers want next, not what they want now. Brand managers create visions that come to life. A great example of this is Apple. Everything Apple does is solutions-focused. Their marketing supports this. Their ads touch consumer's hearts and show them how to integrate Apple products with their personal lives. This is what every brand should ultimately be doing."

Another research finding: Cycle times are faster across all aspects of brand management—social media, blogging, video content, product development, product innovation, customization, failure, and recovery—even current events that surround customers and might be brand relevant. For example, the LEGO Group was cited as especially customer centric and good at rapidly sensing and engaging with its large base of LEGO loyalists—a brand community that continually inspires new product development and new product designs. One brand director said of the LEGO brand: "I think the LEGO company does a great job. So quick to react. They are really good at constantly providing content with the consumer. Very recently, they were able to create a Princess scene on Instagram. They are very nimble with their social and that's where the industry is going in my opinion." Figure 6.3 shows the Lego Royal Baby recreated in LEGO brick form post on Instagram.

We discovered companies that were exploring the limits of customer engagement, ranging from mere social media sharing and posting to strategically engaging customers in limited product design and development. For example, Barnes & Noble brought personality and voice to their social channels using the Nook tablet device, by encouraging users to do social posts with the theme "What's your Nook style?" that drove people to talk about the brand—what books they were

Figure 6.3 LEGO Royal Baby; It's a Girl

Source: LEGO, the LEGO logo, and the LEGO Minifigure are trademarks and/or copyrights of the LEGO Group, used here by permission. © 2015 The LEGO Group. https://instagram.com/p/2Lk-hotddI/.

reading, favorite authors, where they like to read. In March 2015, they launched the #NOOKReadingStyle Sweepstakes to inspire book lovers to share their reading style on their Facebook pages and other social media channels. Participants could win prizes—a $500 Gilt E-Gift Card, a Samsung Galaxy Tab 4 NOOK, and 100 $25 Barnes & Noble Gift Cards. They posted on NOOK's social media channels about "what, where, when, and how they like to read, and discuss all the great ways they enjoy reading with NOOK, while inviting their friends to do the same on social media using the hashtag #NOOKReadingStyle." The campaign generated "a ton of engagement and conversation from customers—it was a very successful campaign," said a senior brand leader.

Hasbro has been a creative digital innovator with its large base of toy and game loyalists by regularly inviting customers to participate in limited but engaging aspects of product design and development. In early 2015, in anticipation of the forthcoming launch of the Monopoly Here & Now board game edition, it teamed up with Buzzfeed to invite fans to vote for their favorite city out of a preselected list to redesign the selection of Monopoly game board properties. The winning 22 top U.S. cities and 22 top global cities would be designed into these special edition game boards. The social media campaign generated 4 million votes, with fans in many cities rallying together to get their town or city designed into the Monopoly game board. “Inviting our fans to get involved in the creation of the newest Monopoly game was a great way to celebrate the 80th anniversary of the brand,” said Jonathan Berkowitz, Vice President of Global Marketing for Gaming at Hasbro. “It was amazing to see both fans and local organizations around the world rally behind their cities and we were wowed by the overwhelming pride people displayed during the Here & Now vote.”[14]

Pierre, South Dakota, and Minneapolis, Minnesota, won the prized positions of Boardwalk and Park Place, respectively, on the Monopoly Here & Now edition game board. The winners of the Here & Now social media campaign are shown in Figure 6.4.

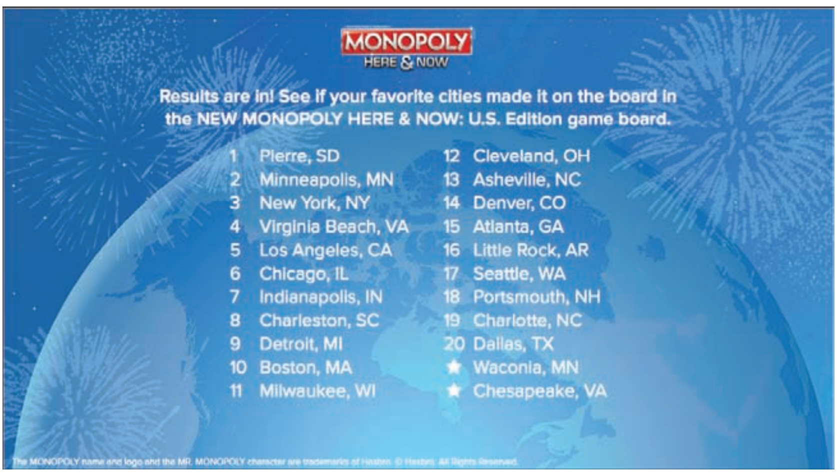

Figure 6.4 Monopoly Here & Now Towns and Cities Social Media Campaign

Used with permission. http://www.buzzfeed.com/votemonopolyus/monopoly-here-and-now-buzzfeed#.qcBGba3j5.

14. Nesh Pillay, “Monopoly and Buzzfeed Pass Go, Collect 4 Million Votes in Here & Now Campaign,” *The Drum*, 19 March 2015, http://www.thedrum.com/news/2015/03/19/monopoly-and-buzzfeed-pass-go-collect-4-million-votes-here-now-campaign.

Hasbro used a similar co-opting product design strategy to engage customers in the process of choosing which Monopoly game tokens to retire and replace. Rather than simply have the brand team decide which tokens should be replaced, they instead invited their fans to participate in the product design decision via Facebook. The campaign went viral as fans, and even well-known brands advocated for their favorite old token—and new tokens: the cat, the helicopter, the guitar, the diamond ring, and the toy robot. The winner: The cat token won and was introduced into new Monopoly game sets; the iron token was retired. "It was a promotional success. It was up to the fans to vote for someone else. [Then] it became a great example of 'brands talking to brands,'" said a digital team leader. "There was cross-pollination [on the Monopoly Facebook page]: 9Lives [cat food brand] wanted consumers to vote for the cat, Zappos [online shoe brand] for the shoe, Tropicana [orange juice brand] for the wheel barrel, [you] need wheel barrels to make oranges . . . You know you have good brand culture when everyone is talking about it. The Today Show wanted to host who won. SNL [Saturday Night Live] put it on their weekend update. See the Monopoly Case Study in Case 6.1.

Case 6.1: Monopoly Case Study

Case Study: Hasbro's Monopoly Team Engages Consumers in Product Development

Monopoly is one of the oldest commercially available board games, first marketed in 1935 by Parker Brothers—and it's a board game!, one of the quietest categories in product marketing and certainly far from the world of digital innovation. But the Hasbro brand and digital marketing teams got together to brainstorm on ideas to energize the brand using digital. A member of the digital team said: "We popped open the research and realized players love the [game] token." Monopoly's inventor, Charles Darrow, used small items from around home as playing pieces—a top hat, a thimble, a shoe, a wheelbarrow. Darrow's niece suggested that the pieces be charms from a girl's charm bracelet.[1]

The brand team decided to retire a game token, but which one? "We decided to steal from Disney and take a token and retire it. Let the consumers decide it." So they "began with about 100 ideas for tokens and whittled the number [down] by paying attention to the conversations its 10 million Facebook fans were having about their favorite pieces," said USA Today.[2] Then they launched the "Save Your Token" campaign to retire either the race car, iron, Scottie dog, wheelbarrow, shoe, top hat, thimble, or battleship. They let fans vote for the one they most wanted to keep via the Monopoly Facebook page. The one with the lowest total would be retired.

In advance of the voting results speculation went viral on social media. Facebook fans made impassioned pleas for their favorite tokens. "Oddsmaker R.J. Bell of Pregame.com says the wheelbarrow has the best odds, 2–1, of being ousted because of 'unstable board play' and it being 'even less attractive to aspiring tycoons in today's wired world.' That's followed by the iron at 5–1 ('Who wants to iron in 2013?'); thimble, 6–1; battleship, 7–1; shoe, 8–1; and hat, 20–1. The two he thinks are pretty safe are the Scottie dog at 25–1 ('No one chooses to retire a dog') and the race car, 30–1 ('Only if they want half as many kids to play')."[3]

The winner: the Cat, receiving 31 percent of the votes. The Scottie Dog was second with 29 percent. The loser: the Iron, receiving 8 percent of the votes.

Fans from 185 countries participated in the vote. The story received widespread coverage in media outlets, including ABC News, CBS News, USA Today, CNN, The Guardian, New York Daily News, The Telegraph, The Today Show, Saturday Night Live, and others.

[1]"The Story Behind Monopoly Pieces," COOL MATERIAL, http://coolmaterial.com/feature/the-story-behind-monopoly-pieces/.

[2]Brian Truitt, "Token change for 'Monopoly' to replace an iconic piece," *USA Today*, January 9, 2013, http://www.usatoday.com/story/life/2013/01/08/monopoly-board-game-tokens-change/1805387/.

[3]Ibid.

Used with permission.

Customers as Brand Managers in the Digital Economy

What about the idea that customers are becoming their own brand managers in the digital economy? The premise of CMEx is that customers seek to design, direct, and manage their own experiences with brands. The brand managers we spoke with said that customers are broadly more assertive, demanding a greater voice in the directions of the brands they choose to associate with—in the brand's values, in brand experience, in brand delivery, in brand community, and in product design and development. Customers are more enabled than ever before, carrying with them at all times the digital assets that enable them to control disparate dimensions of the brand experience. And customers are more knowledgeable than ever before, carrying in the palm of their hand the answers to any question, advice from any person, review information for any product, and pricing information for any product configuration.

One brand director summarized:

> *Consumers can get all and any info that they want—consumers today have more power than ever before. Brands are trying to usurp this power by preempting a purchase with even MORE information—for example iBeacons send push notifications and coupons to consumers while they shop in stores. There is a big power struggle with brands and consumers, and ultimately the consumers will decide—and win.*

A chief digital officer summarized:

> *Today brand managers are completely emasculated, powerless. In the 1970s and 1980s brand mangers made ads, one 30 second ad—they did one commercial. They then did a simple media placement on one television show, like MASH. Life as an advertiser was easy, successful. Everybody watched the same shows, the same media outlets. A brand took 2–3 years to develop. Society moved at a slower pace . . . Brands used to shout. Consumers used to listen.*

So what then is different about consumers in today's digital economy? He continued:

> *Consumers now say, 'Ask me!' Consumers are the brand managers. They say, let me tell you what I like. Let me and my 10 million friends tell you—my 100 friends, times their 100 friends, times their 100 friends, and so on. It's the best free focus group ever. Brands, unfortunately, are not defining the brand now. They are just starting it. Consumers are the authors, the developers, the marketers. It's the reason reality shows are everywhere. We will tell you a good story. It's why seven times more people voted for Season 10 of American Idol than for the president [of the United States].*

These views suggest that at the very least consumers are brand directors—and even brand managers, but in a totally different way. Remember, customer-driven brand loyalty means that customers are at the center—*the architects* of the customer experience, with various brands in orbit around them—some brands filling different roles than others, and more important than others. Ultimately, consumers-as-brand-managers really means that because of digital technology consumers can now design the *experiences* they seek using different brands in their way and at their pace, in a personal omni-channel world of mobile, online, and offline—visiting retail stores or showrooms; viewing traditional media like television; sharing, liking, and Instagramming via social media; and managing their personal preferences using their favorite brand apps. Consumers therefore *seek to design and direct their personal experiences, the brands they choose to be part of their experiences, and the customer engagement they choose with each brand*—all motivated by their goals, desires, and needs centered in the customer experience of a salient moment or situation. Consumers are brand managers of brand experiences with their favored brands.

Eric Nyman, Senior Vice President of Marketing at Hasbro said in an interview: shown in Box 6.2.

Box 6.2: Eric Nyman, The Age of Authorship

I believe we live in an era I am calling "the age of authorship." It is an amazing time where consumers are now demanding customization and personalization opportunities as they engage with and purchase brands they love . . . and marketers must respond. Imagine walking into a restaurant and asking for a burger and being told you can't have it your way! Well today, consumers expect much more than their burgers to be able to be made to order. We are seeing this trend towards allowing consumers to author their own brand outcomes in publishing on Wikipedia, in gaming with games like Trivia Crack, in soft drinks with Coke Free-style, in toys with Nerf Modulus, in sneakers with Nike iD . . . you can even customize and design your own Porsche! With this as a backdrop, marketers more than ever before must understand what consumers want, and behind the scenes offer these experiences combining new technologies with tools consumers can easily engage with that speak to their brands true essence. Done well, this creates a new era of engagement, letting consumers truly pioneer and author new stories, games, and products for the brands they love. The age of authorship is upon us!

Source: Eric Nyman, Senior Vice President, Hasbro. Used with permission.

Consequently, for your brand the new customer-driven brand management model that is in effect in the digital economy looks more like that shown in Figure 6.5, with the customer in the center. She manages and engages with the brand via a digital-enabled customer relationship in six essential domains:

- ***Brand Messaging Relationship:*** She chooses how much, and what kind of messaging she wants to engage with the brand—YouTube videos, email, blogs, buzz feeds, online and mobile ads, including the commercial messaging she is willing to accept.
- ***Brand Product Relationship:*** She chooses to what extent she wants to participate in product design and development—voting in brand surveys, commenting on blogs, participating in product engagement programs as we saw with Monopoly's decision of which game piece to retire and which to introduce into the game's playing environment.
- ***Brand Social Relationship:*** She engages in social media conversation centered in the brand—in Instagramming, messaging, posting, liking, and disliking.
- ***Brand Retail Relationship:*** She chooses the showrooms or retail store environments that enable her to experience the brand in person, to experience merchandise displays, to hang out with other brand fans and experience products in person, to try something on personally before buying. Warby Parker, an online eyeglass seller,

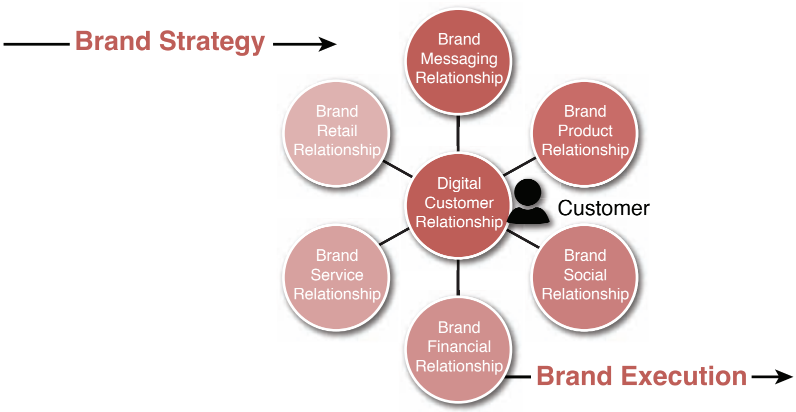

Figure 6.5 Customer-Driven Digital Brand Management

for example, offers a good example of "offline showrooms" where "an optometrist is available to provide eye exams, and opticians are available to help fit and adjust your Warby Parker frames."

- ***Brand Service Relationship:*** She manages her account relationship with the brand—order history, exchanges, refunds, claims. Amazon, for example, lists under the Your Account menu: Your Orders, Your Wish List, Your Recommendations, Your Subscribe & Save Items, Your Membership, Your Garage, Your Music, Your Watchlist, Your Video Library.
- ***Brand Financial Relationship:*** She chooses how to pay for the brand's products, by credit or debit card, brand credit cards, rewards programs—points, redemption options, and so on. And she customizes what kind of product relationship she will have with the brand—premium high service relationship, or basic freemium relationship.

Consumer Engagement and Involvement with the Brand

Well established theory behind consumer engagement and involvement helps explain how and why consumers engage with brands, and how brand marketers should interact with consumers to take advantage of digital opportunities. When consumers are highly engaged or involved they seek ways to organize and process, to store and retrieve, to consult and discuss, to purchase and track purchases, and to seek affirmation and share post-purchase experiences. When consumers engage in these high-interest intensive activities brand theorists call this *High Enduring Involvement*—defined as a strong, even passionate attraction to the product category that leads to engagement and "flow experiences," such as browsing or window-shopping; consuming blogs, magazines, and video content; doing nurturing activities such as waxing a snowboard or designing with an online interior design template; and learning and sharing through clubs, groups, chat rooms, courses, and so on.[15]

15. See Peter H. Bloch, Suraj Commuri, and Todd J. Arnold, "Exploring the Origins of Enduring Product Involvement," *Qualitative Market Research* 12, No. 1 (2009): 49–69.

Another form of high involvement, *High Situational Involvement*, is more focused on solving an immediate situational need or issue—such as replacing a broken appliance, getting immediate relief from a headache, or alleviating the symptoms of acne before going back to school next week. Here consumers are highly involved because they worry about making a wrong or poor choice—there is high perceived risk of a mistake. Theorists have identified five drivers of perceived risk: *financial risk*—of losing money on a purchase, *product risk*—of product failure, *social risk*—of getting criticized by others, *psychological risk*—of violating one's personal values or norms, and *physical risk*—of getting physically harmed by the choice.

Figure 6.6 category shows examples of High Enduring Involvement, High Situational Involvement, and both High Enduring + Situational Involvement.

According to theory, during high involvement consumers become avid seekers and manipulators of information. They engage in active information search, deep information processing, diligent consideration, and evaluation of information; they elaborate on the information they find—that is, they evoke more connections from personal memory, which makes incoming information self-relevant. They learn more, comprehend more, retain more, and elaborate more—leading to optimal opportunities for persuasion, which in turn leads to enduring attitude change and predictive behavioral change with regard to a product or a brand.

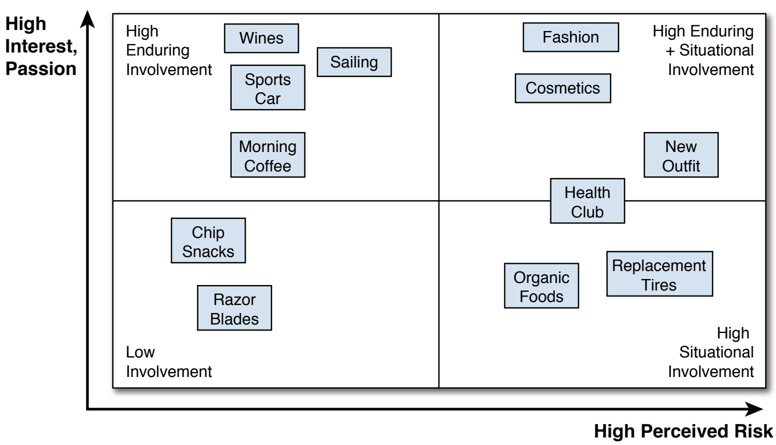

Figure 6.6 Finding Engagement Opportunities in High Consumer Involvement

Consider what this theory means for marketing in the digital economy: Moments of High Enduring Involvement and High Situational Involvement offer highly beneficial opportunities for brands to digitally connect and engage with consumers *because at that moment they are avid seekers and manipulators of information*—they seek for trusted information, for new ways, for the best tools to help them achieve satisfaction and delight as they pursue their passions and interests. For example, if you are a wine enthusiast you can better manage the brands and experiences you care about by using various wine apps. At Google Play's online app store a simple search for "wine" yields 250 separate apps, most of them free or for a nominal price—Newport Vineyards; V. Sattui Winery in Napa Valley, California; Natalie MacLean Wine Reviews ("the World's Best Drink Writer at the World Food Media Awards and publisher of one of the largest wine sites on the web"), and many more.

If you are a photo enthusiast you may seek for ways to better manage your brands and experiences using a photo app. A search for "photography apps" on Google Play yields countless apps organized into categories, including for instance "Collage Apps," "Selfie Apps," "Photo Editors," "Photo Effects," "Photo Sharing Apps," and "Panoramic Cameras." These are high enduring involvement categories, as evidenced by the intensity of app activity.

L'Oreal Paris' digital marketing team created the MAKEUP GENIUS™ app, a good example targeting both High Enduring + Situational Involvement, where the app was designed to let targeted users—young women—quickly and effortlessly (and with no social risk) personally experience makeup in a virtual way to see, explore, test, and try on any type of makeup online. These young women may be High Enduring Involvement users of makeup—they enjoy keeping up with the latest makeup shades, the latest looks—and love to spend time browsing, window-shopping, looking, experimenting, and trying. But they might also be High Situational Involvement makeup users as they worry about what friends might say about their makeup when going out this coming weekend. At these moments of high involvement L'Oreal has focused on digital engagement—offering digital assistance that these young women buyers are open to receiving because they are in a state of avidly seeking information.

MAKEUP GENIUS™ has 14 million downloads since its 2014 launch with more than 250 million virtual product trials. "The app photographs a customer's face, analyzes more than 60 characteristics, and then displays images showing how various products and shade mixes achieve different looks," said Edelman and Singer of McKinsey. "Customers can select a look they like and instantly order the right products online or pick them up in a store. As the app tracks how the customer uses it and what she buys, it learns her preferences, makes inferences based on similar customers' choices, and tailors its responses."[16]

This is essential in digital: Take advantage of digital engagement with consumers while they are in states of high involvement—either High Enduring Involvement or High Situational Involvement—to help them manage, organize, experiment, purchase, store, and share ideas—to enable them to achieve satisfying and delightful outcomes and solutions.

There is one more seminal finding stemming from research on consumer involvement: Because states of High Involvement are prime opportunities to engage with and influence consumer behavior, then when consumers are in states of Low Involvement brand marketers should raise consumer involvement using digital engagement to facilitate these prime moments of either High Enduring Involvement or High Situational Involvement.

During Low Involvement, consumers are passive—they absorb peripheral information that is appealing, they process information shallowly, and make inferences about brands based on the appeal of content tonality and themes, such as humor, well-known celebrities, fantasy, sex, or animated characters. In the traditional advertising world many brands use low-involvement marketing to shape brand attitudes: Beer brands produce humorous commercials and run them with very high frequency—low-involvement cognition requires repetition to avoid losing interest and top-of-mind awareness.

However, in the digital economy there are more, and more engaging, opportunities to take consumers from low involvement to High Enduring or High Situational Involvement, for example, by engaging them with user-generated content (UGC) that is personally relevant, fun, and interesting. Many companies have used UGC successfully—Starbucks soliciting consumers' ideas to improve their coffee shops, Doritos' Smash

16. David C. Edelman and Marc Singer, "Competing on Customer Journeys," *Harvard Business Review* (November 2015), https://hbr.org/2015/11/competing-on-customer-journeys.

the Superbowl UGC ad competition, and so on. But the reason UGC works for so many low-involvement products and categories is because it raises consumer involvement from Low Involvement to High Enduring Involvement by encouraging digital engagement—creating, sharing, and publishing users' ideas online (see Figure 6.7).

Coca-Cola, for example, as a soft drink beverage, is essentially a low-involvement product. Several years ago Coke launched the Share-a-Coke campaign in international markets in which the brand name on the bottle was replaced by 150 most popular personal names, with the idea that people would search for a bottle with their own name on it—personalizing the product. But the real objective of the campaign was to encourage UGC and sharing online with friends via Facebook, Twitter, Instagram, and social media—each bottle carried a hashtag #shareacoke. "We wanted people not just to find bottles with their own names on, but to surprise a friend or someone they love by seeking out a bottle with their name on it," said Chris Deere, head of brand activation at Coca-Cola Great Britain.[17] In Australia the campaign generated 18.3 million media impressions, traffic on the Coke Facebook site increased 870%, with page likes growing by 39%. In the UK, Coca-Cola saw its Facebook community grow by 3.5%, and globally by 6.8%.

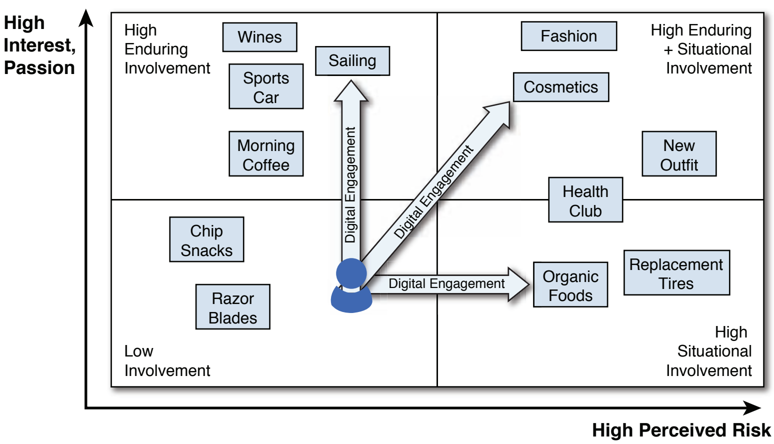

Figure 6.7 Raise Customer Involvement with Digital Engagement

17. Lucy Fisher, "Debranding: Why Coca-Cola's Decision to Drop its Name Worked," *Media & Tech Network*, August 6, 2013, http://www.theguardian.com/media-network/media-network-blog/2013/aug/06/coke-debranding-name-dropping.

The hashtag was used 29,000 times on Twitter. And Coke increased its Buzz score, moving it from negative to positive.[18]

Brand Managers in a Customer-Centric Digital Economy

If consumers are the architects of the brand experience, and if this assertion by the chief digital officer quoted earlier is true— "brands are not defining the brand now, *they are just starting it*; consumers are the authors, the developers, the marketers"—then what is the role of brand managers in the digital economy? We asked one brand director what he thought of this idea that consumers were assuming the role of their own brand managers in the customer relationship. He said: "That would scare most people in my job. At the end of the day if consumers are talking about the brand, and providing ideas and providing content, in a way they already are the brand manager. But they will never manage the financial aspects of it. So there will always be some stuff the consumer will never know."

The LEGO Group's fan base talks about the brand all the time, he noted; they are really driving the brand. Of course they are not choosing or explicitly directing the information technology that LEGO uses, and they never monitor the brand's financial health. Still, he continued, "it is getting closer to consumers being the voice of brand . . . and everyone has their own point of view. If you have your [customer] base telling you to have something that they want, the easiest thing to do is to come out with it. It is a brawny fan base. Fans will give directions, and I believe fans should help drive direction."

You may quibble with the notion that customers now own the brand relationship via digital-enabled customer relationships—they want to be their own brand managers. You may say, for example, that customers do not have access to all the behind-the-scene levers that true marketers or brand managers have—brand strategy, resource deployments into messaging, or digital platform assets, or new product designs, or channel strategy, or promotions. To be sure, some customers—especially older customers or digitally naive customers—are perfectly content to let marketers drive the dynamics of the brand–customer relationship; they are

18. Tim Grimes, "What the Share a Coke Campaign Can Teach Other Brands," *Media & Tech Network,* July 24, 2013, http://www.theguardian.com/media-network/media-network-blog/2013/jul/24/share-coke-teach-brands.

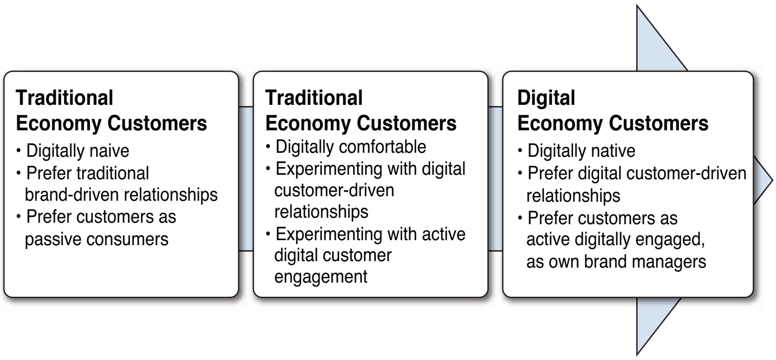

Figure 6.8 The Transition to Digital Economy Customers

Traditional Economy Customers, similar to Ed Artzt's 1990s model of packaged goods brand strategy—high-reach and high-frequency mass market advertising that drives repeat purchase and customer loyalty (see Figure 6.8). Still other customers—perhaps many Gen Y customers who are digitally comfortable—are experimenting with digital customer-driven relationships via Facebook, or Amazon, or Instagram, or digital promotions from their favorite brands like Starbucks. These are *Transitional Economy Customers.*

However, increasingly customers in many product and service categories are moving inexorably toward becoming *Digital Economy Customers*—like many millennials of today's modern economy. They are digitally native, prefer customer-driven digitally managed brand relationships, and prefer to be customers who are active and digitally engaged—they prefer to be their own brand-enabled managers in which the brand enables them to direct and architect their own experiences.

The real question for you as a marketing manager or brand manager is whether your management philosophy is aligned with that of your customers. Are you managing as a *Traditional Economy Marketer* while your customers are quickly migrating toward becoming *Digital Economy Customers?* One brand manager from our field research described her everyday role as being grounded in the traditional economy:

> *I spend a lot of time doing IRI analysis, understanding the competitive landscape, promotions, list prices, competitors, and who is doing what. And I do coupons.com for pouches and doing creative briefs . . .*

> *[In the future] I think the brand will own the relationship. There has to be thought about what you're collecting and your action plan. The brand has to stay true to itself ultimately in order to be authentic but you must take into account what the consumer wants. The brand takes all the information in and gives that quality product.*

Yet, even for mundane products such as foods many consumers are becoming increasingly digitally engaged as their own activists, gathering more nutritional and product quality information through digital search, sharing findings with friends through social media, and joining nutrition networks with useful blogs and news feeds. For example, "the online-research rate among purchasers of cereal is 45 percent, while for soap it's 55 percent and cosmetics 65 percent,"[19] according to a recent McKinsey survey. McKinsey consultants predict that CPG is a rapidly emerging opportunity for digital e-commerce in the next five years:

> *Our forecasts show that e-commerce could account for as much as 5 percent of total food sales over the next five years if retailers move aggressively. In nonfood categories such as cosmetics, diapers and wipes, pet food, and skin care, online penetration could reach as high as 10 percent in the same period. In fact, we believe that online will account for anywhere from 10 to 30 percent of total industry sales growth in the next five years, which equates to a market opportunity of $15 billion to $50 billion. Winning CPG players know that already: our survey showed that while their e-commerce businesses average just $20 million in annual revenue, their online sales are growing three times faster than those of their peers.*[20]

Over the past half decade Nike invested substantially in its Nike+ online personal fitness platform to build communities of runners, trainers, and athletes in various sports, which enables users to track runs and training,

19. Kari Alldredge, Puneet Newaskar, and Kelly Ungerman, "The digital future of consumer-packaged-goods companies," McKinsey & Company, Consumer Packaged Goods and Retail October 2015, http://www.mckinsey.com/insights/consumer_and_retail/the_digital_future_of_consumer_packaged_goods_companies.

20. Ibid.

connect with other athletes and experts, join in expert-led workouts, and get access to run clubs, training clubs, and athlete appearances. For customers Nike thus provides rich and convenient digital dashboard metrics and socialization channels that let users control, adjust, share, compete, compare, and socialize their workout passion.

But in the process Nike also gathers a rich trove of digital analytics data about its customers. For example, a key insight emerged from Nike's customer analytics: Nike has one of the largest followings on Instagram—over 10 million—with users who engage visually with training and athletics. So Nike created the Nike Photo iD app. People choose the Instagram photo they want, and apply it to a pair of Air Max sneakers. Once an image has been selected Nike creates a color scheme for the shoes that matches the colors in the image. Patrick Jones of Buzz60 summarized: "Nike's Photo iD will allow you [to] take your Instagram pictures and create sick and unique shoes—the type of shoes you like. You pick the shoes you like, apply the filter you want, and then Nike will create shoes out of the personalized colors you've captured yourself . . . Photo iD is like Christmas morning, using colors only found in a photo you snapped. Create shoes that no one else has."[21] Consumers then share the design via Instagram, Twitter, Facebook, Pinterest, Bumblr, and Google+. According to the Digital Training Academy: 100,000 shoes were created in the first week, 600 shoes were created per hour at peak, an 8% click-through-rate to buy shoes on Nike iD, and the Nike iD online community was estimated to be 15 million with revenue of more than $100 million.[22]

In many ways digital economy customers have now become part of the brand team, even as the brand is guided strategically by the marketing manager or brand manager, and designed digitally for customer engagement via the expertise of the digital manager. There are, therefore, three centers of brand authority in the new brand team of the digital economy—the word authority is important for it implies

21. Patrick Jones, "Nike's 'PHOTOiD' Designs Sneakers with Instagram Photos," Buzz60, https://www.youtube.com/watch?v=sDhYJz3JxRc.

22. Instagram case study: Nike lets customers design their own trainers with Instagram photos, Digital Training Academy, http://www.digitaltrainingacademy.com/casestudies/2015/01/instagram_case_study_nike_lets_customers_design_their_own_trainers_with_instagram_photos.php.

Figure 6.9 The Brand Team and Centers of Authority in the Digital Economy

authorship, direction, and stewardship. The three centers of authority are (see Figure 6.9):

- ***Strategic Authority*** is under the direction of the marketing or brand manager—with responsibility for ensuring brand integrity, brand alignment, brand image, brand performance, and future brand strategy.
- ***Personal Authority*** is under the direction of the customer—with ownership for adopting, adapting, tailoring, authoring, and customizing the brand to best fulfill the customer's experiential needs and goals—to create delightful and satisfying CMEx.
- ***Engagement Authority*** is under the direction of the digital manager—with responsibility for sensing, designing, and creating digital assets, tools, plans, and programs that engage the customer in ways that enable him/her to satisfy his/her personal experiences and goals, whether that be solving a vexing problem like obtaining a home mortgage or sharing, storing, and retrieving ideas for a kitchen renovation.

One brand director in our field research said: "Brand managers now need to make digital at the core of what they do. They need to give consumers more knowledge in interesting ways. Digital is all about how you communicate to consumers now and consumers now want personalization. Most [of our] brands have an integrated marketing team that is digitally focused. Our digital teams differ with every brand with regard to autonomy and they determine where the brands should be [digitally] with their products. Brands need to have a simultaneous presence on TV and digital—consumers are constantly using multiple devices to consume media all at once. For us digital branding is used to build brand loyalty and pre-empt other purchases."

A chief marketing officer described a sense of consumer ownership of the brand, of embracing not just the product but the brand as their own:

> *I don't know that I ever see [consumers] controlling [the brand], but I definitely think that they [play a central role]—if you don't have the consumer on board, the brand's never going to evolve. If the consumer doesn't know—this is something that we struggled with at [a digital device marketer]—is that we evolved from being a product-driven company to a more content customer-driven company. If the consumer doesn't know what you stand for, what you believe in, why you're around, then they'll have a hard time getting behind you. But if they know why you're there and they understand the purpose you serve as a brand then they can help own it in a way that you can't do it yourself . . . Consumers will be able to elevate your brand to something higher than you could ever make it on its own.*

Digital Brand Management

For years brand management has always been about either *product management*, focused on product innovation, development, and commercial launch or *global brand management*, focused on mass communication message strategy and execution, brand image, and channel management. Business schools always graduated newly minted MBA or undergraduate business students into one of these two central brand management tracks.

A third major track now demands education, training, urgency, literacy, and immediacy: *Digital brand management* that focuses on digital customer engagement, digital brand loyalty, and digital brand performance (see Figure 6.10). In the digital economy commerce is now customer driven because online commerce has democratized economic power, pooling together the voices of vast and disparate buyers with virtually identical buying interests even though they may be located in far corners of the globe.

Figure 6.10 The New World of Brand Management

Digital brand management is thus focused on new measures of brand experience and brand sentiment (for example, brand strength/passion/sentiment/reach at *socialmention.com*), or brand presence and priority (for example, using Google Trends, or Buzz Scores from YouGovBrandIndex), brand search effectiveness (for example, page rank, domain authority, and page authority from moz.com), and brand social media analytics (for example, conversation rates, amplification rates, applause rates of the active engagement of users with your social media pages based on posts, comments, shares, and favorites, from truesocialmetrics.com).

At one company from our field research, for example, the brand team worked with digital agency thought leaders to help shape their digital strategy. One of the key takeaways from their strategizing was that mothers engage in considerable visual search in seeking "how-to" videos, not only commercially prepared video content but UGC as well: "There is an apparent need for custom content for that channel (YouTube). It's a mind shift in the traditional brand management way of thought. It is ineffective (for us particularly) to just put our TV commercials on YouTube—there needs to be YouTube specific videos. However, the messages on YouTube still need to align with the overarching marketing message."

An agency executive spoke with us of how they tap the innate power of indigenous bloggers and digital opinion leaders in a beauty product category to turn them into organic brand spokespersons:

> *We have a guy on our team that built a dashboard that showcases the top beauty content on YouTube (videos like creative how-to's). He goes to YouTube and mines the metadata and sees which beauty brands are top rated and how often those [opinion-leader] people were mentioning certain [fashion category] products like [our brand]. These are organic mentions by huge influencers who have millions of subscribers and billions of views, for example, Michelle Phan [an American YouTube personality. Her YouTube channel has 6.7 million subscribers, 1.1 billion lifetime views, and 350 uploaded videos].*[23] *We can then take these influencers and . . . partner with them to harness their passion and insights toward the CPG products that are relevant to the content they are producing. This is a way to capture a small but powerful segment of the population.*

The transformational demands of the digital economy require that marketing management be reorganized, be redirected, and be recommissioned to integrate digital as central to marketing strategy and execution. Digitally native start-ups, such as Instagram, Uber, or Lyft, have pointed the way toward orienting the entire organization around making better customer journeys—tracking, measuring, and perfecting high-value journeys that customers experience by dedicating journey teams to solve and create simpler, more satisfying, more intuitive, and seamless experiences. McKinsey recommends that firms create a new nimble organizational structure pulling together team members from across marketing and other organizational disciplines—led by a new team leader: "The Journey Product Manager." Working under the direction of the Chief Experience Officer, or Chief Digital Officer, the Journey Product Manager leads improvisational teams of specialists in *Design*—to conceptualize the look and feel of the customer journey; *Development*—to build mobile apps, websites, and digital assets that enable the customer journey; *Analytics*—to track customer interactions and analyze customer behaviors at different journey touchpoints; *Operations*—to orchestrate support from supply chain partners, field

23. Wikipedia for Michelle Phan, as of July 7, 2015.

sales, and customer service; and *Marketing*—to oversee the customer–brand relationship and ensure that brand strategy and the customer journey are properly aligned.[24] For example, a McKinsey client company developed a new countertop cooker with a new app, which enables customers to simplify and enhance the meal preparation journey and enables the brand team to get much closer to customers—to personalize the customer journey:

> *The cooker's journey product manager was tasked with creating various related services (help with meal planning, ingredient purchasing, and meal prep) and building the journeys that would deliver them. With his scrum team of designers, programmers, operations managers, and marketers, the manager has led the development of a service that provides recipes through the cooker app, tracks what customers make, and then personalizes suggestions over time. The team is now developing weekly meal-planning apps, and it has partnered with food producers to create recipes and offer discount coupons for key ingredients. Ultimately, the team plans to support a customer community whose members create and share their own recipes. To do all this, the team scrutinizes data flowing from the app: what percentage of customers download it, how many register, how (and how often) they use it, how cooker use and meal type vary by geography, and, for those who stop using the app, at what point they defect . . . This tracking extends to the level of the individual, revealing what recipes a given customer tries, how often she uses the cooker and the app, and which app features she uses—all of which allows continuing innovation and personalization of the journey.*[25]

McKinsey's study of 40 of the largest consumer package goods companies recommended that firms "deploy marketing resources close to consumers and complement with centers of excellence at scale." They found "that fast-growing companies have more of their resources located closer to the consumer . . . [so they can] respond quickly to their changing needs and preferences." This is a key principle in digital brand management. In our field research we found that practice leaders in the digital economy often adopted a center of excellence philosophy, subject

24. David C. Edelman and Marc Singer, "Competing on Customer Journeys," *Harvard Business Review* (November 2015), https://hbr.org/2015/11/competing-on-customer-journeys.

25. Ibid.

to a certain scale. For example, one digital agency executive said: "If you have more than 5 brands you will end up being very diffused with your digital capabilities. If you have 2–3 brands it may make sense to have a digital team but otherwise digital needs to be within the brand. If there was just a single brand (for example, Walmart), e-commerce teams only have to think about that one brand and can build up a strong brand. The more brands, the harder it is to just have one digital team (for example, P&G). Brands need to own digital."

This is the charge for marketing today in the digital economy—to let go and let your marketing become customer driven, to empower customers with the digital assets they want and need to engage more usefully with the brand, and then leverage these assets to become high-value partners in high-value customer journeys. To ignore these forces, to stay anchored in the traditional economy with a purely brand-centric mindset, ultimately leads to alienation and opt-out. Allister Frost, former head of Digital Marketing Strategy at Microsoft and founder of Wild Orange Media, summarized the new impact of digital on marketing:

> *The days of being able to neatly segment our marketing communications into "traditional" and "digital" buckets are behind us. Today there's only one marketing and all of it is digital to some extent . . . It's incumbent upon everyone in the marketing industry to embrace online channels and discover better ways to help consumers find, enjoy, and share great content that supports your business goals. This means moving beyond conventional "spray and pray" advertising approaches, and creating great branded experiences for customers at every stage of the buying cycle. After all, a brand is little more than the sum of all the things people say about it. The modern marketer's task then is to ensure that the conversations that surround our brands are factual, favourable and easily discovered through whichever channels our customers choose to explore. That's where the new return on investment comes from, the volume of online chatter that positively influences your brand's sales. It's time for a brave new beginning, welcome to the digital world.*[26]

26. Daniel Rowles, *Digital Branding: A Complete Step-by-Step Guide to Strategy, Tactics and Measurement,* London: KoganPage, 2014, p. 12.

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