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The Concept of Customer Intelligence

From Product to Customer

The Concept of a Customer

The single most dramatic aspect of the information revolution has been the extent to which the individual consumer has become an information triggering and transmitting device. Every individual human transaction is monitored and recorded. During the course of the average day many individuals will use an ATM card, a credit card, a telephone, a toll bridge, a loyalty card, a security card, a call centre, digital television or the Internet. On each occasion the transaction data is captured, their selections are noted and the profile of each consumer is further enriched. What consumers do, when they do it and how they do it, is recorded meticulously. Why they do it requires some dialogue with the consumer, but this curiosity is satisfied at present by the armies of market research agencies that engage in polls, surveys and focus groups that seek to determine motivation. Biological human data is also fed through attached and implanted medical monitoring devices and transmitted via mobile phones for remote diagnostics. The human being is now constantly transmitting a stream of data through a variety of channels on a scale that would have been difficult to anticipate even a decade ago. And the

data stream continues to grow exponentially. It is this fact that is calculated to dramatically alter the business landscape.

Jonas Riddlestrale and Kjell Nordstrom, the authors of the bestselling *Funky Business* wrote the manifesto of the kaleidoscopic, fragmented, global knowledge society and declared that the individual's desire for recognition is the new pervasive force in commerce. The customer is screaming 'recognize me', 'recognize my lifestyle', 'recognize my life-stage', 'recognize my personal values' and 'recognize my financial value'. 'Fragmentation is largely caused by our wish to belong to and associate with a certain group of people – our desire not to be a commodity, standardized and exactly like the others'.¹ The funky universe describes a society that no longer needs to harbour anxieties about food, shelter or security. The consumer in the mass affluent post-industrial world has ascended the lower levels of Maslow's hierarchy and now demands recognition and opportunities for self-actualization. In such an environment the emotions, sensitivities and values of the individual are paramount and the business challenge is to comprehend (and shape) the 'economies of soul'² that are the crystallization of these increasingly globalized shared value systems.

It has been observed that, in circumstances where a relatively small percentage of customers contribute a relatively high percentage of profits the success rate of relationship marketing is improved. This conventional view was driven by the assumption that only valuable customers deserved relationships. Because a high-value skew is unlikely to be true of a business selling newspapers or home heating oil there has been a tendency for such firms to disregard the relationship concept. But this misses the point that developing customer intelligence is not solely concerned with acknowledging value but is also concerned with the potential for design and diversification. Even in businesses where there is not a steep skew, there is every

reason to seek to understand what other value propositions might be successfully marketed to the different customer segments that are uncovered.

In the 1950s the management thinker and visionary Peter Drucker (1994) wrote 'there is only one valid definition of business purpose: to create a customer'. For any business to thrive it must pursue a strategy that gains more customers, keeps existing customers and increases the frequency and value of transactions. Achieving these four goals is the purpose of any business. The reality is that most large service companies continue to be beguiled by the management theories of the past and worship devoutly the holy trinity of price advantage, distribution control and economies of scale. These are the mantras of the mass marketing era where customers are a renewable resource and where it is assumed that their behaviour is totally predictable and driven exclusively by price, quality and convenience. In this world view, because the customer is assumed to have a conditioned response that is totally predictable, any effort to study customer behaviour is considered to be a fruitless endeavour. Over the course of time mass marketing companies became aware of an irritating tendency by small groups of customers to not conform. These customers were generally dismissed as 'market niches' and were only addressed by large corporations, not out of any particular interest in the niches as such, but because the existence of the unprotected niche communities allowed for the possibility of new entrants to gain a foothold in the core market.

In 1997 the US banking industry recognized the dramatic growth of information-based banking and described this phenomenon as 'relative newcomers relying on superior knowledge of the customer to strip business after business from traditional players'.³ The study containing this observation went on to list three reasons why customer

intelligence was becoming critical to building competitive advantage. The first reason was because traditional profit guideposts (such as customer tenure, income and demographics) were, by now, misleading indicators of profitability. Secondly, there was a tendency towards dispersal of the financial relationship whereby customers who had previously performed all their business through a single bank now tended to have many service providers and relationships. The third reason was the fact that market rationalization had led to dispersion in value among customers (often leaving a small minority of existing customers subsidizing the remainder) with the consequence that the traditional banking institution was vulnerable to raiding by competitors.⁴

Customers are not bound by price-based value propositions or even by contractual obligations but by the systemization of highly flexible service-based relationships in the life of the consumer that anticipate and serve their needs. In this sense the average consumer and typical business are alike in their desire to outsource non-core activities. The core activity of a consumer is living their lives to the full. The time it takes to evaluate their insurance cover, purchase their staple groceries, check their stock prices, select a telephone call plan, determine the cheapest mortgage or keep up-to-date in their profession or leisure interests are all necessary chores that they would prefer someone else to perform for them. The time they waste in repeating information that they have already supplied to service providers is frustrating. Being asked to provide personal information (on the Internet, in questionnaires or by using so-called loyalty cards) where there is no clear value is intolerable. Having one's time wasted receiving unsolicited and irrelevant messages for value propositions that are not intended for them personally has become a source of incandescent rage. The value of time is now recognized, as it never has been before, by the consumer. For businesses to ignore this reality is to

court disaster. Yet, astoundingly, the quantity of unsolicited contacts increases apace all the time. Interpreting this paradox requires us to acknowledge just how deeply rooted is the product-centred culture that is being challenged.

The Concept of a Product

Time was when a product was a simple tangible thing that was delivered in a package and cost a specific amount of money. For some while now this has not been true and it grows less true with each passing year. A product now can be an intangible service. For example, a product bundle, a customized pricing plan, an addition to a product such as a warranty or credit scheme, a version of a product or service, a discount, or a promotion are all classified as products. The three Ss of the mass production culture – standardization, simplification and specialization – continue to define the core product. But the ancillary aspects of products and the packaging of value propositions around products are increasingly important for businesses to understand. As competition drives the price of core products down close to costs, and as technology has the effect of commoditizing products, the profitability of a business is, increasingly, more dependent on these aspects of a product than on the core product itself. More and more, there is a tendency to sell the basic product free or ‘at cost’ with all profits arising from the personalization factors. For example, it is a widespread practice for mobile phone companies to give away free cellular phones, while the market for personalized ringing tones and icons is estimated to be one billion dollars in Europe alone.

Checking into a hotel and liberally consuming the services on offer is a good guide to the range of things that we call products. In financial terms and in terms of the automation systems that capture data

about transactions, a product is normally defined in terms of an entity that has a price or tariff associated with it. Products may be categorized in a hierarchy with category names that describe groups of products which reflect a summarized total revenue stream (e.g. leisure services, business services, booking services). In a world where we are charged each time we use a service there is an explosive increase in the volume of data that is captured about consumers. Not only are the physical outlets for shopping likely to diminish in importance but the ownership of physical products is also likely to diminish. It is irrational in an information environment for people to want to 'own' things in the way that was common in the past; instead people will be satisfied with consuming things. Products like music, books, videos, games, road usage, financial services, telephony and software are all evolving to a subscription-based business model rather than a product sales model. This transaction 'atomicity' will result in each separate transaction being regarded as a product sale. The ISP that charges by time used rather than on a flat rate for a calendar period has a greater incentive to discover what sites its subscriber is visiting, since income in a pay-per-use model is infinitely capable of being stimulated. An ISP that charges a flat monthly rate regardless of usage is, by contrast, not encouraged to examine customer behaviour since it in no way increases revenue directly.

Knowing what business to be in (i.e. what products to sell) is a key benefit of being information-aware. But equally important is to know what part of the market is most responsive to the product. Even well managed financial services companies suffer from the twin threats to competitive advantage which are (a) a tendency to pass on profitable business because of the absence of risk-related information and (b) a tendency to be blindsided to movements in the market due to the absence of customer-related information. Tackling these issues has proved complex for most retail financial institutions because the

solution lies in the integration of data that is often hopelessly fragmented across the enterprise. The pan-corporate blending of data has raised thorny organizational questions such as ‘who really owns the customer relationship?’ or even the more basic question ‘what is a customer?’. In a world structured around products and accounts these questions begin to challenge many cherished assumptions in the traditional organization. In the emerging e-business financial services enterprise all processes revolve around customers, adding further urgency to the task of reengineering the traditional businesses. The conventional business assumption, that products are fixed and channels are physical, is being shattered. As the crude tools of mass marketing are abandoned they are replaced by the information-oriented strategies that will fuel competitive advantage in the next decade. As the information content of products increases, then our ability to version and customize products will become just as easy as it is to version and customize software.⁵

Don Peppers and Martha Rogers in their influential book *Enterprise One to One* make a useful distinction between independent purchase events and conditional purchase events. This distinction locates the traditional marketing organization inhabiting a perspective that perceives all customer purchases as independent events unconnected to other purchase events. In this scenario the customer is a renewable resource – since every purchase event is independent then the task of the organization is simply to have a value proposition that appeals to certain customers and to find the customers who are responsive to that value proposition. Translated into operational processes what this means is having a product-led enterprise culture and basing competitive positioning primarily on price. As Peppers and Rogers observed, ‘this results in products being priced to attract the last, most marginal, least interested customer’. The alternative approach is to base business strategy on the assumption that most purchases are

conditional events. What this means is that the customer retains a memory of the enterprise from one purchase to the next and that the relationship can be enhanced and reinforced through differentiated marketing and pricing. Instead of selling a product at the lowest possible price, the customer-centred organization will tend to offer a range of tailored products to customer segments at a price that reflects the value of that customer to the enterprise.

The Concept of Intelligence

Intelligence is defined as being 'endowed with the faculty of reason' and it is this sense of what is rational and derived from knowledge, as opposed to what is random, superstitious or derived from chance, that differentiates the intelligent from the less intelligent. So, by this yardstick, is the commercial ecosystem⁶ in the early 21st century intelligent? To answer this question requires us to determine if the relationship between consumer and supplier in the marketplace is a fully, or largely, rational and predictable relationship. Rationality is not a substitute for excellence and, therefore, we are not concerned here with the 'goodness' of the product or service but rather with its 'sanity'. The simple test of sanity is whether the business communications to its actual and prospective customers are consistent with the actions of the business and with the requirements of the customer. This is the starting point in making our assessment.

The critical issue to be aware of when assessing levels of intelligence is the one of perspective. The intelligence, or lack of it, should be determined solely by the customer's experience. Traditionally, it was the supplier's view of its own capabilities, or a comparative analysis of the capabilities of many competing suppliers, that was used to determine the degree of intelligence of an enterprise. Therefore,

the conventional product-centred measures of business performance (such as basket analysis, yield analysis and margin analysis) are giving way to customer-centred measures (such as loyalty analysis, value analysis and lifecycle analysis). The new measures reflect a shift from the trial-and-tempt approach of the market share goal with the retention-and-reward policy of the customer share goal. What we have witnessed during the course of the past decade is a change in the commercial centre of gravity from product to customer. This is proving to be a painful transition for many businesses because many management actions, which are directed at the conventional goals of increasing market share and reducing costs, are often irrational when viewed from the perspective of consumers seeking long term relationships.

Despite massive investments during the past decade in a wide variety of information systems, there is no compelling evidence of commensurate improvement in consumer satisfaction. The experience of most consumers is one that prompts consternation as they grapple with more and more junk mail, unsolicited calls, invasions of privacy and failure to maintain an accurate profile or any profile. Customers are targeted more frequently certainly; but often they are targeted with less accuracy than ever before. For many consumers, the business of doing business has not become demonstrably more intelligent. This is largely explained by the fact that many businesses invested heavily in customer contact systems without having also invested in the intelligence systems that could guide the contacts.

Of course, a significant number of prominent businesses have earned the right to be classified as 'intelligent' and these businesses are making significant inroads in their markets. But they are still a minority and there is no sign that they are trailblazing a single new paradigm that will automatically be followed by all businesses. This is

particularly perplexing since many business leaders have declared themselves to be committed to the deepening of customer relationships. Indeed, having invested heavily in data analysis, process reengineering, e-commerce, relationship marketing, call centres, contact management systems and a plethora of other corporate initiatives, many of today's business leaders are themselves perplexed at the failure to achieve significant culture and process change.

The call centre phenomenon has, in the manner of its implementation, been largely self-defeating, and is a good example of management confusion on the subject. There were two possible benefits of a centralized call centre from the point of view of the business and only one possible benefit from the consumer perspective. The two benefits from the perspective of the business were that the call centre would reduce costs and increase revenues. Costs would be reduced by centralizing a fragmented function that was scattered across branches and departments in a single location. Revenues would be increased by cross-selling and up-selling to inbound callers as well as by using the call centre operators for out-bound 'telemarketing' when they were not dealing with inbound traffic. Well, with respect to the cost reduction driver it is clear that the business website is an even cheaper way of disseminating routine information. And the revenue benefit never materialized because the customer profile information was rarely delivered and consumer hostility to 'blind' telemarketing is universal. The consumer benefit was the much heralded 'single-point-of-contact' benefit that would prevent consumers being passed from one department to another. It is quite clear that this was rarely achieved and that the consumer experience of call centres is almost universally negative. The customer profile available to the call centre operator is seldom integrated, the empowerment of operators is close to zero, the extent of training of call centre personnel is superficial and it is frequently the case that the customer is passed on to another

function within the call centre. As a source of static data providing responses to simple pricing, order status, quotation or product queries the call centre works quite well. But this is information that is more easily obtained from a well-designed website.

The only compelling case that can be made for human interaction between customer and business is when the issue raised by the customer is complex and this is precisely what the existing call centre model cannot deal with. It is highly unlikely that the call centre as we have come to know it will survive long and will be progressively replaced by the Internet as the numbers of web-phobic older customers drops below critical mass. It is likely that small centres of competence will replace the vast call centre operations to deal with those queries that cannot be satisfied by an intelligent website. Perhaps it is not so surprising that the call centre has not met expectations since it was originally introduced to address blatant failures in the existing fragmented business processes underpinning marketing, sales and customer service. This fragmentation is nowhere more evident than when visiting a marketing technology exhibition. The visitor will be greeted by vendors with solutions for data management, data integration, data cleansing, geodemographic data, lifestyle data, contact management, click stream analysis, segmentation, data mining, campaign management, campaign execution, web design, e-commerce, wireless messaging, behaviour analytics, regulatory compliance, mapping software, retention applications, document management, list brokering, workflow management, computer telephony and call centres. This fragmented, overlapping and bewildering array of options is in marked contrast to the degree of integration that has been achieved in the manufacturing, logistics and financial functions of the enterprise. One of the enduring legacies of the model of mass marketing has been the separation of the marketing and sales functions. This was logical enough in a universe where marketing

had no direct communication with individual customers; became inefficient with the advent of direct marketing and now makes little sense at all.

Change is a constant condition of organizations in an open market. As soon as the business hones one value proposition the risk is that the rules change and the proposition becomes obsolete or is directed at the wrong audience. External change constantly threatens mind-numbing ferment as firms constantly reinvent themselves. But the human and corporate psyches have only got a limited capacity for shock. What corporations require is not the ability to be able to respond to change but the ability to anticipate it and incrementally adapt to prevailing conditions. Better still is the firm that can precipitate change. To achieve this we need to have information tools that can behave as the corporate radar. This is the nub of intelligence. It is recognition of the fact that change is not a threat; surprise is.

Inverting the Business Model

The conventional business model has always been a command model. Even those firms that aspire to putting the customer first and placing a premium on the customer relationship often persist with a command structure that is oriented to products. Indeed, most e-commerce also continues to reflect this traditional model of the business. It is a model that says 'we have certain well-defined products and services that may be of interest to you. In addition, we have a number of non-negotiable rules and procedures and if you, the customer, consent to jump through these hoops, then we can do business together'. This attitude of mind reflects a traditional and deeply ingrained culture that is firmly centred on the product or service rather than on the customer. It is also a culture that is

consciously inflexible since the business is concerned to match customers to its range of products rather than being concerned with finding the products that are required by the customer. The company manages its business risk by policing the rules and regulations that are set within the bureaucratic policy parameters of the business. The business organization is characterized by high levels of centralized authority, regulation and audit of procedure and low levels of skill and delegated authority at the customer interface. This is the dominant and pervasive business model that we encounter today and is a classic inside-out perspective. Those who reside inside the business entity define how the relationship will function and the consumer is invited to take it or leave it.

A range of innovations in business practice now robustly challenge this conventional wisdom. Chief among these innovations is the substitution of the product focus with a customer focus. In the customer-centred enterprise measures such as share of wallet become as important as share of market. Once the customer is placed at the centre of the business model a fundamentally different question gets posed. Instead of asking how many more prospects can we match to our fixed and inflexible value proposition, the question now becomes one where we ask how many more value propositions can be matched to each customer or customer segment. In effect, the business perspective shifts to being an outside-in perspective.

Making such a transition from an inside out to an outside in business process framework⁷ has significant consequences for the business. These consequences include the need to diversify the range of products that the business has to offer, a radical reengineering of the organizational structure to reflect the need to serve groups of customers rather than to promote categories of product and a fundamental reordering of the performance metrics of the business.

But the single most important of these consequences is the need to improve the intelligence that is garnered concerning the consumers that are the target of the business. Having reached a comprehensive understanding of the factors that influence customer loyalty does not necessarily provide a sound basis for business strategy. The concern about 'loyalty' is no more than recognition that a relationship exists between consumer and business and that the sales event 'merely consummates the courtship'.⁸ It is not until the measures of loyalty have been combined with measures of profitability, behaviour and lifecycle that the complete customer profile emerges.

The experience of this author in working with companies who are embarked on the journey of information discovery suggests that even the most visionary of business leaders respond with white knuckled shock to discoveries that were waiting to happen. Take a US office equipment chain that discovered that 20% of their customers considered the cost of acquiring a printer cartridge with a ticket price of \$20 to be in excess of \$60. What these customers were calculating was the cost of their time and the inconvenience of having to go to a store during working hours. Or the European energy distribution company that discovered that a mere 0.5% variation in energy prices would result in an attrition level of 25%. Or the hotel chain that discovered that the main complaint from business travellers was that they wanted to have the use of office services outside of office hours (when they were actually in the hotel).

The shock of discovery can result in a number of scenarios. Business leaders can decide that this is a golden opportunity to redesign the business to accommodate the exigencies of customers and, as no two customers are the same; this inevitably leads to differentiation in service, process, price and product. But the shock of discovery does not always result in an engagement strategy that embarks the enterprise

on the road to customization. In very many instances discovery is followed by denial. It has been the unremitting experience of this author that many business leaders faced with new incontrovertible facts about their customers or their market react with unease and scepticism rather than excitement. To executives schooled in the old ways, who have developed their reputations as cost-cutters, the challenge of mass customization looms like a Byzantine complexity that is too terrifying to contemplate. The appalling vista that dawns on many business executives is that a business that surrendered to such customer demands would be run by the IT department! What business leaders need to decide is whether they really want to struggle for control with a customer in a relationship. Customers have control because they can leave.

Customization of marketing messages and relationships mark a significant transition away from mass marketing. Achieving the level of customer intimacy required to engage in one-to-one communications requires substantial investment in the business intelligence systems that are used to discover the events, trends and patterns in the data that allow the supplier to fully comprehend (and even to anticipate) the needs of customers. Any genuine attempt to engage in customer retention, up-selling, cross-selling or product bundling strategies requires sophisticated business intelligence software and a substantial overhaul of marketing processes within the enterprise. And, having embarked on this transition, there has to be a recognition that one likely outcome is widespread diversification of the business.

It should be observed that many organizations are opting to evade the transition to customer-centred processes by defining an ever larger range of customer services while firmly retaining the command structure. A good example of this would be the many hotel chains that now

offer an extraordinarily comprehensive range of guest services and where each service is described and defined in detail. One assumes that the goal of such a policy is the definition of every conceivable request that a customer might make and to define a programmed response to each case. But the fact that this results in a very comprehensive list of services does not disguise the truth that it nonetheless remains an inflexible menu, albeit a very comprehensive one. A guest who requests a shoe-shining service where this is not one of the many services on offer will be met with blank incomprehension and a yawning gap will continue to exist between disguised product-centred systems and genuinely customer-centred ones.

At one extreme are market pirates; businesses that exist to exploit a temporary need in the marketplace where no intention exists to offer any value proposition or to build enduring relationships. While this business model is highly exploitative (and often highly profitable) the pirate enterprise is normally short lived. The working assumption of the pirate enterprise is that, at some stage, it will cease to exist. At the other extreme are organizations that exist solely to have and maintain a relationship with its customers. Voluntary associations, charities, not-for-profit organizations and religious organizations can all be located in this category. The underlying assumption here is that, while the organization will have to evolve, it has no intention of ceasing to exist. The global transition from product to customer may be seen in the context of moving from a business instinct focused on opportunity to a business instinct informed more by service. In a marketplace where consumer sophistication is steadily growing customers are more readily equipped to make this distinction. However, given the complexities of the market and the turbulence that attends to every major business change, it is highly probable that, during the course of this transition, a temporary opportunity will be created for a counter movement.

The Counter Revolution

After a decade of substantial and growing investment in improved customer intelligence the turn of the millennium marked a downturn in commitment to customer management. Frustration at the complexity and disappointment at the results of tentative customer management initiatives explains some of the counter trend. The fact that every study of customer loyalty cited inertia as a more important factor than satisfaction also accounted for increased complacency. It was also the case that businesses recognized that external shocks that redefined the marketplace presented a greater threat to survival than the defection of customers to competitors. And, largely due to the effect of new technology, improvements in supply chain management presented dramatic opportunities in some sectors to gain significant price competitiveness on a scale that trumped any service quality advantages enjoyed by competitors. To the hard-boiled business executives who never had much patience anyway with customer loyalty initiatives the real source of success in business is determined by clout (favourable regulatory treatment or control of channels), glitz (sports sponsorship and celebrity endorsement), value (cutbacks and more cutbacks) and happenstance (population growth and economic expansion). The one thing they are sure of is that coddling customers has got nothing to do with it. The assumption of the counter revolutionaries is that growth is determined by price, brand affinity, product quality and service quality, in that strict order. And because customer intelligence initiatives are perceived to be costly, and therefore a threat to price competitiveness, it is unsurprising that service quality often falls off the list entirely.

The discounters have been able to dominate the great centre of the consumer bell curve only because the incumbent players have ceded this space in the market. Indeed, it remains a curiosity of the

consumer markets that established retailers seem to be subject to a mysterious magnetic force that progressively draws them into the congested space at the premium end of the market, while remaining incapable of developing strategies that maintain their appeal to multiple market segments simultaneously. This phenomenon is easily explained by the central obsession that branding occupies in the minds of consumer marketers, but the failure to recognize the trap inherent in monotone branding is not as easy to understand.

The counter revolution has its own ideologues as well. Stephen Brown has written an entertaining manifesto for hucksters that lampoons relationship building as ‘tantamount to stalking’ and revels in the fact that good old fashioned ‘glitz and glamour’ marketing is more art than science.⁹ Of course, there is nothing mutually exclusive about relationship marketing (to build intelligence) and creative marketing (to build brand awareness). What is interesting is the visceral antagonism displayed by many advocates of creative marketing for the dry mathematical precision of scientific marketing. For Brown, success in marketing campaigns proceeds from ‘a deeper understanding of what people want than would ever emerge from the bowels of a data mine’.¹⁰ Heroes of the creative marketing faction include the creator of the scarce and collectable Beanie Babies, the makers of the tantalizingly ambiguous *Blair Witch Project* movie or Pizza Hut who garnered publicity by paying for their logo to be emblazoned on a Russian space rocket. These are indeed fine examples of good old-fashioned creative marketing and follows on the venerable tradition of jolting or manipulating the market that is as long as history itself. But much creative marketing is less benign than these examples and is frequently devoted to obfuscating the value proposition. The real professionals of caveat emptor marketing are to be found in the ranks of those who separate high net worth individuals from their wealth by extending ‘privileged’ access to expensive limited-edition

products and 'exclusive' access to risky financial investments. Without doubt, ingenuity can stretch a meagre marketing budget and a carefully managed 'exclusivity' will always find, amongst the affluent and adolescent, a frenzied desire to have what ones' peers have not. But such stunts rely for their effect on the recurring gullibility of the few or the sporadic euphoria of the many. Consumers in the broader market have a limited capacity to be shocked, affronted or tantalized. The success of the three-card trickster is that he comes to town once a year on festival day when people have a propensity to be amused. There is a clear understanding that when the tents come down, he moves on. It is not a trick that you can keep repeating.

The sweet spot in the market is a moving target. Knowing where it is (and where it is going to be) is the essence of business strategy in the adaptable firms that are not in the business of persuasion but in the business of matching value propositions to pliable customers in the profitable sweet spots in the market. Hyper-profitable companies have not achieved their status by micro engineering their processes, cultures or products but by being in the right place at the right time. But hyper-profitability is not a long-lived phenomenon and the basic business premise that exploits temporary opportunity does not make for a durable business strategy.

Instead of the technology-enabled shift away from the numbing standardization of the mass marketing culture that was widely anticipated, there is strong evidence that the opposite has occurred. Not for the first time in history has the real world veered sharply away from the path anticipated by experts and commentators. Some of the reasons for this have, no doubt, to do with the flaws and deficiencies in the application of the new technology that were discussed earlier in this chapter. Other drivers of the counter revolution include new technological developments such as the phenomenon of SPAM¹¹ that

is disfiguring e-mail on the Internet. But we are not dealing here with an inadequate or incomplete realization of the vision of customization; we have to soberly acknowledge that an actual trend reversal is taking place.

The 'age of information' promised more specialization, greater variety, greater personalization and substantially improved quality of service. The new generation of marketing executives that arrived on the scene a decade ago promised not simply to satisfy their customers, but to surprise and delight them. New technologies would allow us to discard the primitive 'catch-all' messages of mass marketing and there was excited talk about the marketing possibilities presented by the market segment of one customer. In a universe where individual consumer needs could be identified, personalization would replace homogenization.

In reality, the past decade has witnessed a marked trend by large numbers of highly successful businesses in the polar opposite direction. Everywhere can be seen to be a move away from variety and towards specialization. Variation, it seems, is the enemy of process simplification. While process variation may seem relatively straightforward and highly desirable in principle the perceived costs that are associated with process complexity had not been adequately anticipated by those predicting a mass customized future. Hidden costs in a complex process include staff training, operator specialization (with attendant scheduling complexity, training complexity and increased hazard of demarcation conflict), organizational fragmentation, computer systems complexity as well as embedding costs in procurement and supply chain. The general trend in retailing, in so far as the application of technology is concerned, is towards fragmentation. While some retailers are forging ahead with ambitious loyalty card, e-tailing and one-to-one sales strategies, others, who have been less than

impressed by their forays into technology-led initiatives, are growing more cautious and, in some cases, actually abandoning technology initiatives. In the airline industry many carriers have downgraded or even abandoned their loyalty schemes in the face of a savage onslaught (particularly in Europe¹²) from the 'no frills' budget airlines. Even where reward schemes have been retained, many airlines have begun to talk of these frequent flier programs as a 'burden'.

The drive for personalization has no force independent of the technological means that can enable this innovation. The curiosity is that the technological means exist and can be considered to be reasonably mature. Yet, the drive towards personalization is undeniably stalled as evidenced by a growing, rather than a reducing, volume of undifferentiated marketing communications. It is not simply the SPAM that clogs up every e-mail user's inbox or the irritating interruptions to everyday life occasioned by telemarketing campaigns; it is also that the vast majority of mainstream business-to-consumer enterprises in banking, retailing and telecommunications have demonstrably failed to convincingly make the transition from mass marketing to mass customization. The evidence is also apparent in disappointments that companies report in investments that they have made in business intelligence systems as well as the relatively short-lived experiments we have witnessed in customer relationship management.

'It's the price, stupid' appears to be the loud response from the product-centred advocates. But even this obvious driver does not explain the success of all product-centred businesses. Many businesses that are focused on upscale (i.e. not price sensitive) consumers demonstrate the same narrow focus that typifies the budget enterprise. Many exclusive restaurants would greet a request for a hamburger with the same degree of incomprehension as a fast food restaurant would greet an order for liver pâté. Service excellence is not cumulative.

It is simply a different specialized niche. This evidence strongly suggests that the mass market is redefining itself, not in terms of membership by customers of multiple segments at one time or during their lifecycle, but with business strategies that are exclusively focused on individual segments. While these phenomena demonstrate that progress toward a culture of individualization will not necessarily proceed in a unilinear fashion, there is little doubt that the ultimate destination that is enabled by technology is a market segment of one being served by an integrated suite of services. Since the base technology to achieve this is, in fact, already substantially mature, the inevitable question is 'what is impeding progress towards this goal?'

Many apparently plausible explanations can be advanced to explain why the business adoption of individualized marketing lags so far behind the technological capability to deliver it. These include concerns about privacy, the usual problems of organizational inertia in the face of cultural change, as well as the data integration challenge faced by large organizations with many legacy information systems. There is also some evidence that customization capabilities that had been successfully developed have subsequently failed to survive company mergers in circumstances where the partner to the merger did not have a similar capability.

There is also the problem that much of the hype surrounding individualization and relationship marketing has confused the issue in a number of fundamental respects. A key misconception that is frequently touted is that individualization will facilitate a return to the cosy small-town relationship between customer and supplier. It will not. System-driven customer care infrastructures can only enable differentiation options that are programmed into the system. It will never be a substitute for the personalized care of the empowered and highly flexible proprietor owned enterprise. System-driven customer

care based on individual preferences and requirements will always be systematic and will never have the cachet of the small town storekeeper or luxury goods provider where the relationship between customer and supplier is based on a longstanding personal relationship between two human beings. To be sure the enormous gap in individual care that currently exists between the luxury market and mass market will diminish dramatically. It may even prove to be the case that the mass customized enterprise serving a mass market will prove to be more pampering of the customer at a tangible and quantifiable level. But the person-to-person contact will always command a premium and will always be able to promote intangible qualitative distinctions. The luxury end of the market may well have to work harder to justify their margins and there will be some corrosion of this sector since many rational consumers will fail to see the value in a highly individualized expensive service when compared to a highly individualized economy service.

Of course, much of the counter revolution is nothing more than a return to the age-old business practice of focusing exclusively on the mass at the centre of the market. The model of the product-centred enterprise is to find customers for a product and not products for customers. Success in this model rests on doggedly refusing to be enticed into serving the differing needs of those occupying the trailing tails of the normal distribution bell curve. Regardless of the potential of technology, keeping it cheap and keeping it simple are perceived to be the prime survival goals. The counter revolutionaries fear that matching smaller and smaller segments with ever larger menus of options does run the risk of resulting in an exponential complexity; and that complexity equals high costs and uncompetitive prices.

What this tells us is that there is considerably less real competition in the marketplace than we might be inclined to believe. For many

business executives profit comes from cost-cutting and control of channels which in turn comes from synergies achieved through market share growth which in turn comes from mergers and takeovers. In these circumstances customers are not won over by superior service; they are the spoils of war. Like medieval serfs they have no say in their allegiance. They simply belong to territory won during the course of commercial conflict. They are not agents of their own destiny but are allocated through affairs of state. They are essentially disloyal and are responsive to price. They may revolt if rents are too high but otherwise are not worthy of too much consideration. This is a tough mindset to change and it is a mindset that is shared by more business enterprises than would care to confess to such opinions. 'Customers are a renewable resource' was the astounding observation of a large retail chain manager who made the comment only slightly tongue-in-cheek. The perception is that there are always new markets to be conquered. With enormous latent demand in their home markets most enterprises in North America and Europe are more concerned with the 'new' markets in China and elsewhere. That there will forever be new frontiers is the earnest hope of the product-centred marketers.

Operational necessity is the prime driver of any business organization and the constant operational necessity has always been cost reduction. Any attempt to harvest customer information within a cost-cutting culture is directed at fine tuning a supply chain that perceives the customer as a mildly oscillating handle driving the process. And, within such a mindset, the solitary point of an information economy is to reduce the gap in time and distance between producer and consumer. Indeed, retailers will soon dispense with check-outs entirely when customers are persuaded to use radio frequency identification (RFID) technology that automatically scans purchased goods and enables payment authorization. The Internet has already

eliminated vast swathes of supply chain complexity. Simplification removes expensive handoffs and improves demand feedback from the market. The resultant cost savings of these 'efficiency factors', it is asserted, drives competition forward with more momentum than can be unleashed by 'loyalty factors'. The frictionless economy creates vivid transparency as local monopolies; customer ignorance; lock-in devices and general inertia all disappear in the clear light of the global comparable market. Enormous efficiencies are realized as the information economy vaporizes the complex network of dependencies that characterized the 'old' economy.

But as Gary Hamel, the management scientist, has observed, 'the hard truth is that most companies owe a good portion of their profits to friction. Friction inflates prices. Friction reduces competitive rivalry. Friction protects margins. So for many companies, the profit boosting benefits of the Web-driven efficiencies will be overwhelmed in the price-deflating effects of ever less friction'.¹³ In other words, a new equilibrium will emerge and, in the end, comparable value propositions will have to be differentiated with reference to the obvious remaining variable – the customer. In a totally transparent market that new equilibrium will be brutal and unforgiving and customer demand in this enlarged market cannot continue to be accurately measured as if it were a suggestible homogenous mass that erased its own memory at the completion of every transaction. Neither can assumptions be made about an enduring inertia on the part of customers. Inertia has less to do with a psychological complacency on the part of consumers than it has to do with carefully constructed exit barriers placed in their way by business. When, for example, number portability was forced on a reluctant telecommunications industry by regulators, customer churn exploded. As the current round of operational efficiencies is being digested and operational processes become ever more fine-tuned, attention is shifting urgently to discover how

to eliminate those unexpected oscillations, surges and outages that continue to short circuit the entire system. However, as businesses learn to respond to the many different pulses in the market there will undoubtedly be further reductions in supply-chain friction, but cost efficiencies will not be the primary driver of customization; customer retention will. The new operational imperative will be to create friction through customization features that maintain customer loyalty. We are rapidly approaching the point when all of the surviving competitors achieve comparable levels of information-induced cost efficiencies. And when that point is reached each competing business will turn its gaze to the enormous mass of customer data that has been dammed up behind the walls of an outdated operational necessity.

The fact that the overall level of quality, reliability and range of product choices has steadily improved for most consumers during the past decade should not distract from the fact that the apparent range of options available to consumers has, in very many cases, been diminishing over the same time. Given all the brouhaha about building customer relationships it is sobering to note that it took the threat of terrorism rather than sincere concern for customer service to persuade airlines in the US to take the basic step of linking every piece of baggage on an airline to an actual passenger.¹⁴ Mass customization holds out the promise of large-scale operations coexisting snugly with an intimate and personalized service. The key message of one-to-one marketing is that mammoth scale is not synonymous with customer alienation. Large can be beautiful. However, the potential for large-scale low-cost operators to provide mass customized service offerings is being ignored in the headlong rush to achieve size simply for the sake of cost-effective synergies. But it is also important to note that the actual volumes of customer data that is accumulating in many of the low cost businesses that are oriented to electronic interactions

is actually greater than the data being amassed by traditional businesses. Therefore, when these businesses choose to switch their focus to customers, and they surely will, they will be proceeding from a position of considerable strength. For even the discounters are aware that sustained competition that is based exclusively on price is the road to dusty death for most competitors in the market. This natural inclination will, in any event, feed the desire for differentiation attributable to service-oriented factors.

The Myth of Bifurcation

But just as there has been a reaction away from customization so too has there been a reaction away from standardization. The Spartan corporate culture created by consolidation, reengineering and delay-ering has been demoralizing not just for the staff but for customers as well. It would be wrong to believe that the massive consolidation in, for example, the banking industry in the US was necessarily a precursor to a culture of mass customization. The sense of alienation felt by many customers manifested itself in a renewed appetite for community banking. Two hundred new bank charters were issued in the US in 1997, the most since 1988 according to the Federal Reserve. The *Wall Street Journal* observed this phenomenon and commented "These newcomers paint themselves as friendly, local alternatives to menacing out-of-state intruders. They woo customers distressed at losing their hometown bank, or dismayed by the impersonal veneer of banking by telephone and automated-teller machine". One such community banking president captured the essence of the reaction to the counter revolution movement with the edict 'I don't want anyone ever to say "It's our policy". "Policy" is one of the weasel words of the disempowered employee. Policy is a craven substitute for saying no. It is a byword for bureaucracy. It tells customers that their

requirements do not conform to the way that the bank does business. The very word “policy” implies a mindset of mass production’.¹⁵

There is a tendency to believe that the marketplace can accommodate both the mass production as well as the mass customization models of business. There is even strong evidence that within many organizations there is a belief that both strategies can be pursued simultaneously. This bifurcation of marketing strategy is deeply illogical since any endeavour to build up relationship equity by one marketing group is sure to be overwhelmed by the indiscriminate customer contact of the other. It is often difficult to discern, in these prototyping projects, any sense of purpose beyond the desire to experiment. The tendency for products to be customized in a world where some customers have lots of money and little time or patience and some customers have lots of time and little money raises the possibility for a secondary market tier to become established. This is the market for mass market cheap products where little investment is made in the information content of the consumer and this type of consumer will, typically, be serviced using kiosks, ATMs and other electronic interface environments.

The notion that this is the rebirth of the old class system is probably erroneous. The idea that some consumers will always value time and convenience and others will always value cheapness assumes a polarity that is wrong. The same consumers may demonstrate opposite reactions at different times and in different circumstances. Think of a train traveller who has the choice of a business coach with a reserved seat, fax services, Internet access and, on the other hand, coaches with standard service. A traveller going from A to a business engagement at B might well select the premier service because it satisfies his/her need at that time. With no need for these services on the return journey that same traveller might select the

standard (cheaper) service. Old notions about 'first class' had to do with sociological phenomena rather than any notion of 'improved service' and passengers availing of 'first class' service were willing to pay a premium, not for any additional services, but for the satisfaction of ensuring that they would not have to mix with people of a lower social class. This pathology was satisfied simply by paying more for nothing extra on the safe assumption that only those sharing similar anxieties would do the same.

Airlines are increasingly challenged to explain why an extra two inches of legroom, a complimentary drink and a newspaper merits a charge that is four times greater than the cost of foregoing these pleasures which most rational travellers have calculated represent a trivial value. The fact that the business cabins of aircraft are still occupied indicates that irrational behaviour based on psychological phobias remains a potent factor in the behaviour of some consumers. But it is a diminishing affliction and the pressure now exists to design new consumer packages that genuinely merit premium payment. The actual business rules that are applied by businesses to customers are often mind-boggling in their eccentricity. On one airline that espoused all of the trappings of relationship management it transpired, after a great deal of evasion, that the business rules that determined which passengers got upgraded related to how well-dressed they were. So much for recency, frequency, or monetary value! More interestingly, the airline was aghast that this finding would actually be recorded. The psychotic nature of the irrational enterprise is characterized by a mode of behaviour that is uncomfortable with being confronted with the stark logic of their business processes, but not so uncomfortable that they feel compelled to do anything about it.

Every analysis of the customer pyramid yields a validation of the Pareto 80/20 rule with 20% of customers generating 80% of the

revenue. In fact, where costs are fairly allocated, what is generally found to be the case is that 80% of customers are not profitable at all and that the top 20% often generate close to 100% of profits. In the world of mass marketing, which is most of the marketing world, the bulk of the marketing budget is not devoted to these top customers or even to all customers but to non-customers.¹⁶ Ultimately the organization that attempts to foster customer relationships must invest in the effort and this necessarily will starve the mammoth prospecting machine of the mass marketing organization that currently consumes the marketing budget. Any attempt to pursue both strategies will have the predictable effect of failing to nurture either approach sufficiently.

There is, in effect, a conscious short-term efficiency orientation in the enterprise that is laser focused on achieving operating efficiencies in order to maintain costs. By contrast, the business that directs its efforts toward the development of relationships is more focused on the longer-term benefits to be achieved by an effectiveness orientation. These are fundamentally different cultures and are, in many instances, now beginning to compete directly in the same markets. The chances that two separate linear trajectories (mass and personalized) can coexist are remote.

Conclusions

There have been many attempts over the years to increase the number of Ps that comprise the marketing mix from the existing four of product, price, place and promotion.¹⁷ (These have, over the years, included possibilities such as packaging, people, probing, performance, process and power.) But, ultimately, this is a model where product is the overwhelmingly dominant component and it cannot

be renovated in a world where product has given way to customer at the centre of the marketing universe. At the risk of minting yet another marketing mnemonic it is more relevant, in the customer-centred environment, to talk of the four Es of engaging (facilitating the customer to discover you), enabling (facilitating the customer to do business with you), exchanging (acquiring the transmitting information with the customer) and extending (developing the relationship with the customer to satisfy related and discovered needs).

Meeting people at the human interface is often cited as necessary to progress a relationship, but it should also be noted that the need for human interaction also serves to inhibit consumer behaviour. Remote is good when you can consume a service, cancel an account or move money and business at the touch of a button without having to endure the searching questions and agonized grimaces of another human being. The fear that compels many businesses to lock-in the customers will, in an increasingly depersonalized market, be brutally punished. But the depersonalization does not mean that the service cannot be customized for the individual; in a sense, the greater the depersonalization the greater will be the need to customize in order to reconstruct a relationship. The new marketplace is transparent, instantaneous, individual, mobile and volatile. In the past retailers analysed 'baskets', banks analysed 'accounts', telecommunications operators analysed 'lines', hotels analysed 'rooms', airlines analysed 'seats', insurers analysed 'policies' and utilities analysed 'meters'. The urgent challenge now for everyone is to acknowledge the existence of 'customers'.

But there has to be a real doubt as to whether the science of marketing has reinvented itself convincingly in the face of these changes. The potency of marketing, as a force in the corporate enterprise, continued to fade fast during the closing decades of the last century. This

diminishing status, relative to the finance and manufacturing functions, was explained by Frederick Reichheld, the pioneer of customer loyalty measurement, in terms of a lack of clear focus. '[Marketing] has failed to keep pace with advances in other disciplines and has not defined for itself a meaningful and measurable role that is critical to the mission of the firm.'¹⁸ While the measurement of customer retention has provided a real fillip to marketing professionals in the past decade, the design and control of the customer interaction continues to remain outside the remit of any integrated function in most business organizations.

The premise of customization and relationship marketing was that new technologies would enable customers to give feedback to the companies serving them. The resulting cumulative information would transform mass marketing into 'relationship' marketing. The technologies have arrived but relationships are maturing more slowly than the earlier adopters and proponents of the concept had anticipated. Investments have been made in operational systems that capture large volumes of data from daily customer interactions. However, few organizations are able to effectively use this data to drive their sales and marketing initiatives. The key to success is transforming customer data into business intelligence and that intelligence into higher profits. Notwithstanding the temporary counter movement, it seems clear that those businesses that have failed to (or declined to) reorient from products to customers are increasingly imperilled. It is undoubtedly important for a retailer selling wine to employ competent oenologists and it is useful for booksellers to employ enthusiastic bibliophiles. But customers are experts too. They know what wines they like to drink just as they know what kinds of books they like to read. In a universe of empowered customers there seems little doubt that the enterprise that knows its customers will outperform the business that is limited to product expertise.

In this respect two distinct meta-segments appear to be emerging. One segment comprises the cash-rich time-poor who demand convenience, multichannel access, self service, customization, added value services and time sensitive interactions. The other segment is made up of the time-rich cash-poor who will retain the traditional primary sensitivity to price. It is tempting to assume that this will result in a neat cleavage between customer-centred businesses focused on service quality and product-centred businesses focused on price. The problem with this scenario is that the cash-rich are not entirely insensitive to price and the premium that they are prepared to pay for the superior quality of service will never be more than a moderate percentage of the overall cost. For example, a business airline traveller is prepared to pay extra for a flexible ticket with certain service guarantees, but if a no-frills airline serves the same route at one fifth of the cost then the basic irrationality of paying five times more for the frills becomes intolerable even for the most cash-rich consumer. And a full service airline that is haemorrhaging customers to budget competitors can never hope to achieve the economies of scale that would allow them to compete with the low-cost business model. Therefore, we can state with some confidence that, outside of niche markets, cost will always remain the primary differentiator.

However, in examining the enduring primacy of cost as a factor of competition, we must choose between two different assumptions about how the market will develop. In one scenario the pursuit of lower costs through fundamental changes to the business model accompanied by refinement of business processes is perceived to be the only important task of management and customers only become the focus of attention during temporary periods of stagnation in the process innovation cycle. If we accept this assumption then the recent obsession with building customer profiles and relationships can be dismissed as a passing fashion. The alternative scenario is to assume

that innovations in business models and processes are easily imitated and the tendency for cost structures to rapidly converge means that the enduring source of competitive advantage will decisively shift to customer service innovations that are based on complex information systems that are not easily replicated by competitors. If we follow the logic of this assumption we must conclude that a fundamental transformation is, in fact, taking place. To demonstrate why the transformation scenario is more credible we must first examine the nature and essence of customer information.
