

CHAPTER 1

Evolution of Marketing and the Revolution of Customer Strategy

No company can succeed without customers. If you don't have customers, you don't have a business. You have a hobby.

—Don Peppers and Martha Rogers

There can be no doubt that technological progress has irreversibly transformed the nature of business competition, giving customers much greater power, making them ever more knowledgeable, connecting them seamlessly to other customers, and raising their expectations and demands significantly with respect to the products and services they buy.

New technologies also allow an enterprise to **treat different customers differently**, in contrast to the way business was done for virtually the entire twentieth century, when an enterprise would treat all its customers in basically the same way. Except for some high-end products and business-to-business (**B2B**) services, no enterprise could afford the time and expense required to pay attention to individual customers, one customer at a time. Instead, enterprises focused on the most common **needs** of their “average” customer, and then publicized their product **benefits** and **attributes** in the same way to everyone, in hopes of persuading some of these average customers to buy. But because of *technology*, enterprises can now do business in an entirely different way. Using computer databases, an enterprise can easily **identify** and remember its individual customers, one customer at a time, even if it has millions of them, paying close attention to the experience it provides to each customer and to its ongoing relationship with them. Using the internet, along with technologies such as Wi-Fi and smartphones, an enterprise can now **interact** directly with each of its individual customers and prospective customers, responding to inquiries, posing questions, and making different offers or suggestions to different customers.

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And now that enterprises *can* do these things, competition *requires* them to do so. The problem for today's enterprise is that the old marketing strategies and tactics, having been designed to attract as many average customers as possible for whatever product or service an enterprise was selling, don't help much when it comes to planning the best way to *treat different customers differently*. Instead, an enterprise needs a **customer strategy**, designed to meet different individual customers' different individual needs, and to maximize the amount of business an enterprise is able to do with each different customer.

The goal of this book is not just to acquaint the reader with the techniques of managing **customer experiences** and relationships. The more ambitious goal of this book is to help the reader understand the essence of customer strategy and how to apply it to the task of managing a successful enterprise in the 21st century.

This relatively new task that enterprises are now taking on, treating different customers differently, goes by a number of different labels and buzzwords. Some refer to it as "**customer centrality**" or "customer engagement." Others may refer to it as "customer management" or "**customer focus**." But no matter what term is used, the central premise is that an enterprise should seek to engage its customers, one at a time, in long-lasting, **mutually** valuable relationships, based on trust.

Moreover, to do this successfully, an enterprise must be able to see itself through a customer's own eyes. It must learn how to *experience* what each different customer experiences, and then take steps to ensure that this experience becomes better, easier, more convenient, and even more enjoyable for the customer, over the lifetime of that customer's relationship with the business. And businesses do this because their managers understand, intuitively, that when a customer has a better experience, the business will be *creating more value*, which means that the relationship with this customer now has a higher likelihood of increased profitability.

The dynamics of the customer-enterprise relationship have changed dramatically over time. Customers have always been at the heart of an enterprise's long-term growth strategies, marketing and sales efforts, product development, labor and resource allocation, and overall profitability directives. Historically, enterprises have encouraged the active participation of a sampling of customers in the research and development of their products and services.

But until recently, enterprises have been structured and managed around the products and services they create and sell. Driven by assembly-line technology, mass media, and mass distribution, which appeared at the beginning of the twentieth century, the Industrial Age was dominated by businesses that sought to mass-produce products and to gain a competitive advantage by manufacturing a product that was perceived by most customers as better than its closest competitor. Product innovation, therefore, was the important key to business success. To increase its overall market share, the twentieth-century enterprise would use **mass marketing** and mass advertising to reach the greatest number of potential customers.

As a result, most twentieth-century products and services eventually became highly **commoditized**. *Branding* emerged to offset this perception of being like all the other

competitors; in fact, branding from its beginning was, in a way, an expensive substitute for relationships companies could not have with their newly blossomed masses of customers. Facilitated by lots and lots of mass-media advertising, brands have helped add value through familiarity, image, and trust. Historically, brands have played a critical role in helping customers distinguish what they deem to be the best products and services. A primary enterprise goal has been to improve *brand awareness* of products and services and to increase *brand preference* and brand loyalty among consumers. For many consumers, a brand name has traditionally testified to the trustworthiness or quality of a product or service. Today, though, more and more, customers say they value brands, but their opinions are based on their “relationship with the brand.” As a result, brand reputation is becoming *one and the same* with customers’ experience with the brand, product, or company (including relationships).¹ Indeed, consumers are often content as long as they can buy one brand of a consumer packaged good that they know and respect.

The two-way brand, or *branded relationship*, transforms itself based on the ongoing dialogue between the enterprise and the customer. The branded relationship is “aware” of the customer (giving new meaning to the term *brand awareness*).

For many years, enterprises depended on gaining the competitive advantage from the best brands. Brands have been untouchable, immutable, and inflexible parts of the twentieth-century mass-marketing era. But in the interactive era of the 21st century, firms are instead strategizing how to gain sustainable competitive advantage from the *information* they gather about customers. As a result, enterprises are creating a *two-way brand*, one that thrives on customer information and interaction. The two-way brand, or *branded relationship*, transforms itself based on the ongoing dialogue between the enterprise and the customer. The branded relationship is “aware” of the customer (giving new meaning to the term *brand awareness*) and constantly changes to suit the needs of that particular individual. In current discussions, the focus is on ways to redefine the brand reputation as more customer oriented, using phrases such as “brand engagement with customer,” “brand relationship with customer,” and the customer’s “brand

Companies are realizing that what customers say about them is more important than what the companies say about themselves.

¹Vikas Kumar, “Building Customer-Brand Relationships through Customer Brand Engagement,” *Journal of Promotion Management* 26, no. 7 (July 2020), p. 986–1012, doi:<http://dx.doi.org/10.1080/10496491.2020.1746466>, accessed June 7, 2021. Also, Christof Binder and Dominique M. Hanssens report research on brand valuation of a company at the time of merger or acquisition. They discovered that over a 10-year period from 2003 to 2013, “brand valuations declined by nearly half (from 18% to 10% [of total company value]) while customer relationship values doubled (climbing from 9% to 18%). Acquirers have decisively moved from investing into businesses with strong brands to businesses with strong customer relationships.” See “Why Strong Customer Relationships Trump Powerful Brands,” *Harvard Business Review*, April 14, 2015, available at <https://hbr.org/2015/04/why-strong-customer-relationships-trump-powerful-brands>, accessed August 17, 2021.

experience.” Add to this the transparency for brands and rampant ratings for products initiated by **social media**, and it’s clear why companies are realizing that what customers say about them is more important than what the companies say about themselves.

What does it mean for an enterprise to focus on its customers as the key to competitive advantage? It means creating new shareholder value by deliberately preserving and growing the value of the customer base.

ROOTS OF CUSTOMER RELATIONSHIPS AND EXPERIENCE

Once you strip away all the activities that keep everybody busy every day, the goal of every enterprise is simply to get, keep, and grow customers (whether those are business-to-consumer [**B2C**] customers or enterprise business customers [B2B]). This is true for nonprofits (where the “customers” may be donors or volunteers) as well as for-profits, for small businesses as well as large, for public as well as private enterprises. It is true for hospitals, governments, universities, and other institutions as well. What does it mean for an enterprise to focus on its customers as the key to competitive advantage? Obviously, it does *not* mean giving up whatever product edge or operational efficiencies might have provided an advantage in the past. It does mean using new strategies, nearly always requiring new technologies, to focus on growing the value of the company by deliberately and strategically growing the **value of the customer base**.

To some executives, **customer relationship management (CRM)** is a technology or software solution that helps track data and information about customers to enable better **customer service**. Others think of CRM, or one-to-one, as an elaborate marketing or customer service discipline. We even recently heard CRM described as “personalized email.” But it’s far more than that.

Managing customer relationships is what companies do to optimize the value of each customer, because they understand the customer’s perspective and what it is—and should be—like to be a customer. This book is about much more than setting up a business website or redirecting some of the mass-media budget into the call-center database or cloud analytics or **social networking**. It’s about increasing the value of the company through specific customer strategies (see Exhibit 1.1).

EXHIBIT 1.1 Increasing the Value of the Customer Base

Get	Acquire more customers.
Keep	Retain profitable customers longer.
	Win back profitable customers.
	Eliminate unprofitable customers.
Grow	Upsell additional products in a solution.
	Cross-sell other products and services.
	Referrals and word-of-mouth benefits.
	Reduce the cost to serve customers.

Companies determined to build successful and profitable customer relationships understand that the process of becoming an enterprise focused on building its value by building customer value doesn't begin with installing technology, but instead begins with:

- A strategy or an ongoing process that helps shift the enterprise from a focus on traditional selling or manufacturing to a customer focus while increasing revenues and profits in both the current period and the long term.
- The leadership and commitment necessary to cascade throughout the organization, and the thinking and decision-making capability that puts customer value and relationships first as the direct path to increasing shareholder value.

Customer strategy means *increasing the value of the customer base*. CRM can be thought of as a set of business practices designed, simply, to put an enterprise into closer and closer touch with its customers, in order to learn more about each one and to deliver greater and greater value to each one, with the overall goal of making each one more valuable to the firm to increase the value of the enterprise.

The reality is that becoming a **customer-strategy enterprise** is about using information to gain a competitive advantage and deliver growth and profit to the firm by *increasing the value of the customer base*. In its most generalized form, CRM can be thought of as a set of business practices designed, simply, to put an enterprise into closer and closer touch with its customers, in order to learn more about each one and to deliver greater and greater value to each one, with the overall goal of making each one more valuable to the firm to increase the value of the enterprise. It is an enterprise-wide approach to understanding and influencing customer behavior through meaningful analysis and communications to improve customer acquisition, customer retention, and customer profitability.² Customer centricity is distinguishable from

² Priyanka Meena and Praveen Sahu, "Customer Relationship Management Research from 2000 to 2020: An Academic Literature Review and Classification," *Vision* 25, no. 2 (June 2021): 136–58, <https://doi.org/10.1177/0972262920984550>; Ju-Yeon Lee, Shrihari Sridhar, Conor Henderson, and Robert W. Palmatier, "Effect of Customer-Centric Structure on Firm Performance," Marketing Science Institute Working Paper Series, Report No. 12–111, available at https://www.msi.org/wp-content/uploads/2020/06/MSI_Report_12-1111.pdf, accessed August 17, 2021; Sunil Gupta and Donald R. Lehmann, *Managing Customers as Investments* (Philadelphia: Wharton School Publishing, 2005); Robert S. Kaplan, "A Balanced Scorecard Approach to Measure Customer Profitability," Harvard Business School's Working Knowledge Web site, August 8, 2005, available at: <https://hbswk.hbs.edu/item/a-balanced-scorecard-approach-to-measure-customer-profitability>, accessed August 17, 2021; Don Peppers and Martha Rogers, *The One to One Future* (New York: Doubleday Books, 1993); and Fred Reichheld and Rob Markey, *The Ultimate Question 2.0: How Net Promoter Companies Thrive in a Customer Driven World* (Cambridge, MA: Harvard Business Review Press, 2011).

product centrality and from technology centrality. These differences will be discussed more in Exhibit 1.3 later in this chapter.

Defined more precisely, what makes customer centrality into a truly different model for doing business and competing in the marketplace is this: It is an enterprise-wide business strategy for achieving customer-specific objectives by taking customer-specific actions. It is enterprise-wide because it can't merely be assigned to marketing if it is to have any hope of success. Its objectives are customer-specific because the goal is to increase the value of each customer. Therefore, the firm will take customer-specific actions for each customer, often made possible by new technologies.

Customer centrality: An enterprise-wide business strategy that achieves customer-specific objectives by taking customer-specific actions.

In essence, building the value of the customer base requires a business to *treat different customers differently*. Today, there is a customer-focus revolution under way among businesses. It represents an inevitable—literally, irresistible—movement. All businesses will be embracing customer strategies sooner or later, with varying degrees of enthusiasm and success, for two primary reasons:

1. All customers, in all walks of life, in all industries, all over the world, want to be individually and personally served.
2. It is simply a more efficient way of doing business.

We find examples of customer-specific behavior, and business initiatives driven by customer-specific insights, all around us:³

- An engaged couple receives **customized** mobile reminders to choose a venue, select wedding attire, hire a photographer, and other key milestones, all at the appropriate time.
- A group of three friends open the web page of the same kitchenware company that they all have ordered from in the past. Each friend views a different offer featured on the company home page on their device.
- A woman receives an email before her eight-month obstetrics appointment that gives information about what to expect at the appointment and her baby's stage of growth. A month later, the same woman receives a notification of her baby's immunization appointment that is triggered when she leaves the hospital with her newborn.

³Thanks to the Salesforce Marketing Cloud website for inspiring many of these examples; "Marketing Cloud Customer Stories," Salesforce, available at <https://www.salesforce.com/products/marketing-cloud/customer-stories/>, accessed April 14, 2021.

- An insurance company not only handles a claim for property damage but also connects the insured party with a contractor in their area who can bypass the purchasing department and do the repairs directly.
- Instead of sending out the same offer to everyone at the same time, a company waits for specific trigger behavior from a customer and increases response rates 25-fold.
- When logging in to buy tickets from a website, a father taking his tween daughter to a concert experiences a very different customer journey than does his twenty-something son who logs into the same site.
- Through the same phone app they used to check their flight status, an airline passenger in the airport waiting to board is offered an upgrade to business class as an **apology** for a 45-minute departure delay.
- An outdoor gear company sees that their tents are being discussed on a social channel and sends a free tent as a trial sample to a consistent product supporter.
- A supervisor orders more computer components by going to a web page that displays the firm's contract terms, their own spending to date, and the departmental authorizations.
- Sitting in the call center, a service rep sees a “smart dialogue” suggestion (see Chapter 8) pop onto a monitor during a call with a customer, suggesting a question the company wants to ask that customer. (The company is not asking all customers who call that week the same question.)
- A **customer service representative** sees a complaint a customer has made on a social channel and, at the same time, is able to view their purchasing history and order status. The service rep uses that information to reply to the complaint via the same social channel.
- An online cosmetics customer receives personalized offers when they open the company website, and promotional coupons are automatically applied to their shopping cart.
- A business sees that a customer has left their website, abandoning a cart with selected products before checkout, and makes sure that when the customer calls up their news online the next day, they get a reminder or a sweetener to go back and complete the order.

Taking customer-specific action, treating different customers differently, improving each customer's experience with the company or product, building the value of the customer base, creating and managing relationships with individual customers that go on through time to get better and deeper—that's what this book is about. Note that in the case of consumers, this can be conducted in a way that is simultaneously customized and yet efficiently automated. In the chapters that follow, we will look at lots of examples. *The overall business goal of this strategy is to make the enterprise as profitable as possible over time by taking steps to increase the value of the customer base.* The enterprise makes itself, its products, and/or its services so satisfying, convenient, or valuable to the customer that they become more willing to devote their time and

money to this enterprise than to any competitor. A customer-strategy enterprise interacts directly with an individual customer. The customer tells the enterprise about how they would like to be served. Based on this interaction, the enterprise, in turn, modifies its behavior with respect to this particular customer. In essence, the concept implies a specific, one-customer-to-one-enterprise relationship, as is the case when the customer's input drives the enterprise's output for that particular customer.⁴

The overall business goal of this strategy is to make the enterprise as profitable as possible over time by taking steps to increase the value of the customer base.

A suite of buzzwords have come to surround this endeavor, in addition to customer relationship management (CRM): **one-to-one marketing**, **customer experience management**, **customer value management**, customer focus, **customer orientation**, customer centricity, **customer experience journey mapping**, and more.

You can see it in the titles on the business cards—chief marketing officer, of course, but also a host of others, such as:

- Customer success manager (B2B)
- Chief customer officer (B2C)
- Chief relationship officer
- **Customer care** leader
- Customer experience manager
- Customer experience advocate
- Director, customer experience and digital design
- Customer value management director
- Chief revenue officer
- Customer revolutionary

As with all new initiatives, this customer approach (different from the strictly financial approach or product-profitability approach of the previous century) suffers when it is poorly understood, improperly applied, and incorrectly measured and managed. But by any name, strategies designed to build the value of the customer base by building relationships with one customer at a time, or with well-defined groups of identifiable customers, are by no means ephemeral trends or fads any more than computers or connectivity are.

⁴ Barton Goldenberg, "CX: Give Your Customers the Experiences They Want," *CRM Magazine* 21, no. 4 (April 2017): 6; Ranjay Gulati, *Reorganize for Resilience: Putting Customers at the Center of Your Business* (Cambridge, MA: Harvard University Press, 2010). Also see Don Peppers and Martha Rogers, Ph.D., *One to One B2B* (New York: Doubleday Broadway Books, 2001).

A good example of a business offering that benefits from individual customer relationships can be seen in online banking services, in which a consumer spends several hours, usually spread over several sessions, setting up an online account and inputting payee addresses and account numbers, in order to be able to pay bills electronically each month. If a competitor opens a branch in town offering slightly lower checking fees or higher savings rates, this consumer is unlikely to switch banks. They have invested time and energy in a relationship with the first bank, and it is simply more convenient to remain loyal to the first bank than to teach the second bank how to serve them in the same way. In this example, it should also be noted that the bank now has increased the value of the customer to the bank and has simultaneously reduced the cost of serving the customer, as it costs the bank less to serve a customer online than at the teller window or by phone.

Clearly, customer strategy involves much more than marketing, and it cannot deliver optimum return on investment of money or customers without integrating individual customer information into every corporate function, from customer service to production, logistics, and channel management. A formal change in the organizational structure usually is necessary to become an enterprise focused on growing customer value. As this book shows, customer strategy is both an operational and an analytical process. **Operational CRM** focuses on the software installations and the changes in process affecting the day-to-day operations of a firm—operations that will produce and deliver different treatments to different customers. **Analytical CRM** focuses on the strategic planning needed to build customer value as well as the cultural, measurement, and organizational changes required to implement that strategy successfully.

How to Think About Relationships and Customer Experience as Key to Business Strategy

The move to a customer-strategy **business model** has come of age at a critical juncture in business history, when managers are deeply concerned about declining customer loyalty as a result of greater transparency and universal access to information, declining trust in many large institutions and most businesses, and increasing choices for customers. As customer loyalty decreases, profit margins decline, too, because the most frequently used customer acquisition tactic is price cutting. Enterprises are facing a radically different competitive landscape as the information about their customers is becoming more plentiful and as the customers themselves are demanding more interactions with companies and creating more connections with each other. Thus, a coordinated effort to get, keep, and grow valuable customers has taken on a greater and far more relevant role in forging a successful long-term, profitable business strategy.

If the last quarter of the twentieth century heralded the dawn of a new competitive arena, in which commoditized products and services have become less reliable as the source for business profitability and success, it is the new computer technologies and

applications that have arisen that assist companies in managing their interactions with customers. These technologies have spawned enterprise-wide information systems that help to harness information about customers, analyze the information, and use the data to serve customers better. Technologies such as enterprise resource planning (ERP) systems, **supply chain** management (SCM) software, enterprise application integration (EAI) software, **data warehousing**, **sales force automation (SFA)**, marketing resource management (MRM), and a host of other enterprise software applications have helped companies to **mass-customize** their products and services, literally delivering individually configured communications, products, or services to unique customers in response to their individual feedback and specifications.

The accessibility of the new technologies is motivating enterprises to reconsider how they develop and manage customer relationships and map the customer experience journey. More and more chief executive officers (CEOs) of leading enterprises have identified shifting to a customer-strategy business model as a top business priority for the 21st century. Technology is making it possible for enterprises to conduct business at an intimate, individual customer level. Indeed, technology is driving the shift. Computers can enable enterprises to remember individual customer **needs** and estimate the future potential revenue the customer will bring to the enterprise. What's clear is that technology is the enabler; it's the *tail*, and the one-to-one customer relationship is the *dog*.

Traditional Marketing Redux

Historically, traditional marketing efforts have centered on the four Ps— product, price, promotional activity, and place—popularized by marketing experts E. Jerome McCarthy^a and Philip Kotler.^b These efforts have been enhanced by our greater (and deeper) understanding of consumer behavior, organizational behavior, market research, segmentation, and targeting. In other words, using traditional sampling and aggregate data, a broad understanding of the market has preceded the application of the four Ps, which enterprises have deployed in their marketing strategy to bring uniform products and services to the mass market for decades.^c In essence, the four Ps are all about the “get” part of “get, keep, and grow customers.” These terms have been the focal point for building market share and driving sales of products and services to consumers. The customer needed to believe that the enterprise's offerings would be superior in delivering the “four Cs”: customer value, lower costs, better convenience, and better communication.^d Marketing strategies have revolved around targeting broadly defined **market segments** through heavy doses of advertising and promotion.

This approach first began to take shape in the 1950s. Fast-growing living standards and equally fast-rising consumer demand made organizations aware of the effectiveness of a supply-driven marketing strategy. By approaching the market on the strength of the organization's specific abilities, and creating a product supply in accordance with those abilities, it was possible for the firm to control and guide the

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sales process. Central to the strategic choices taken in the area of marketing were the—now traditional—marketing instruments of product, price, place, and promotion—the same instruments that served as the foundation for Philip Kotler’s theory and the same instruments that still assume an important role in marketing and customer relations today.

The four Ps all, of course, relate primarily to the aggregate market rather than to individual customers. The market being considered could be a large mass market or a smaller niche market, but the four Ps have helped define how an enterprise should behave toward all the customers within the aggregate market:

1. *Product* is defined in terms of the average customer—what *most* members of the aggregate market want or need. This is the product brought to market, and it is delivered the same way for every customer in the market. The definition of *product* extends to standard variations in size, color, style, and units of sale as well as customer service and aftermarket service capabilities.
2. *Place* is a distribution system or sales channel. How and where is the product sold? Is it sold in stores? By dealers? Through franchisees? At a single location or through widely dispersed outlets, such as fast-food stores and ATMs? Can it be delivered directly to the purchaser?
3. *Price* refers not only to the ultimate retail price a product brings but also to intermediate prices, beginning with wholesale; and it takes account of the availability of credit to a customer and the prevailing interest rate. The price is set at a level designed to “clear the market,” or the highest price that will sell the product easily and widely, assuming that everyone will pay the *same* price—which seems only fair because everyone will get the same product. And even though different customers within a market actually have different levels of desire for the same product, the market price will generally be the same for everybody.
4. *Promotion* has also worked traditionally in a fundamentally **nonaddressable**, noninteractive way. The various customers in a mass market are all passive recipients of the promotional message, whether it is delivered through mass media or interpersonally, through salespeople. Marketers have traditionally recognized the trade-off between the cost of delivering a message and the benefit of personalizing it to a recipient. A sales call can cost between \$300 and \$500 (a 2012 Center for Exhibition Industry Research study put the average cost of a business-to-business [B2B] sales call at \$596),^e but at least it allows for the personalization of the promotion process. The cost per thousand (CPM) to reach an audience through mass media is far lower but requires that the same message be sent to everyone. Ultimately, the way a product is promoted is designed to **differentiate** it from all the other competitive products. Except for different messages aimed at different segments of the market, promotion doesn’t change by *customer* but by *product*.

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^a E. Jerome McCarthy, *Basic Marketing: A Managerial Approach* (Homewood, IL: Irwin, 1958), is now in its 16th edition, and has been substantially updated.

^b Philip Kotler, S. C. Johnson Distinguished Professor of International Marketing, Kellogg School of Management, Northwestern University (emeritus), is widely known as the father of modern marketing. His textbook *Marketing Management*, coauthored with Kevin Keller, has become the foundational text for marketing courses around the globe. First published in 1976 by Prentice Hall, it is now in its 16th edition.

^c Philip Kotler, *Marketing Management: Analysis, Planning, Implementation, and Control*, 9th ed. (Upper Saddle River, NJ: Prentice Hall, 1997), pp. 92–93.

^d Philip Kotler, *Kotler on Marketing* (New York: Free Press, 1999), pp. 116–120.

^e Bloomberg Business, “Sales Moves Beyond Face-to-Face Deals onto the Web,” January 10, 2013, available at: <https://www.bloomberg.com/news/articles/2013-01-10/sales-moves-beyond-face-to-face-deals-onto-the-web>, accessed August 17, 2021; “The Cost of a Sales Call,” 4D Sales, accessed February 3, 2016, available at: <http://4dsales.com/the-cost-of-a-sales-call/>, accessed August 17, 2021.

Continuing Roles for Mass Media and Branding

- Communicate to nonusers who have not yet raised their hands.
- Build image and brand identity.
- Establish a brand position with nonusers to help users make a statement about their own image.

INITIAL ASSESSMENT: WHERE IS A FIRM ON THE CUSTOMER STRATEGY MAP?

Recognizing that two families of technology have mandated the competitive approach of building customer value by building customer relationships, we can map any organization—large or small, public or private, for-profit or nonprofit—by the level of its capabilities in the arenas of *interacting* with customers and *tailoring* for them. A company would be rated high on the interactivity dimension if it knows the names of its individual customers and if it can send different messages to different customers and can remember the feedback from each one. A low rating would go to a company that doesn’t know its customers’ identities, or does but continues to send the same message the same way to everybody. On the tailoring dimension, a firm would rate highly if it mass-customizes in lot sizes of one; it would rate low if it sells the same thing pretty much the same way to everybody. Based on its rating in these two dimensions, a company can be pinpointed on the Enterprise Strategy Map (see Exhibit 1.2), which includes four quadrants:

Quadrant I: Traditional Mass Marketing. Companies that compete primarily on cost efficiencies based on **economies of scale** and low price. Companies in this quadrant are doomed to commoditization and price competition.

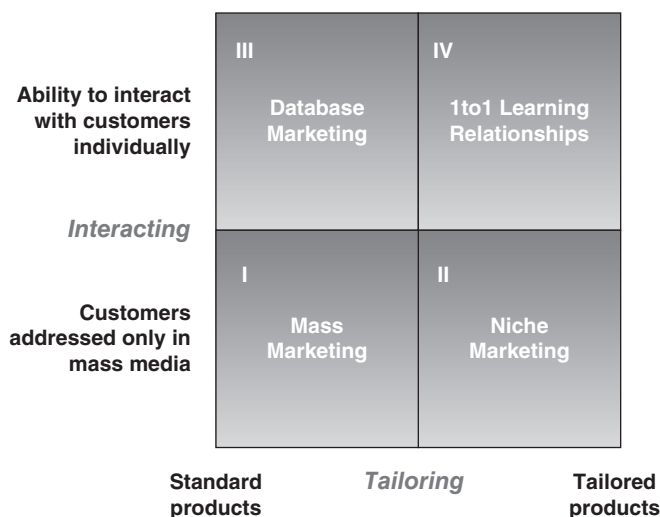


EXHIBIT 1.2 Enterprise Strategy Map

Source: Don Peppers and Martha Rogers, Ph.D., *Enterprise One to One* (New York: Doubleday/Currency, 1997).

Quadrant II: Niche Marketing. Companies that focus on target markets, or niches, and produce goods and services designed for those defined customer groups. This more strategic and targeted method of mass marketing still offers the same thing the same way to everyone, but for a small, relatively homogeneous group.

Quadrant III: Database Marketing. Companies utilize database management to get better, more efficient use of their mailing lists and other customer information. Generally focused primarily on continuation of traditional strategies but at lower costs to serve.

Quadrant IV: Learning Relationships. These are based on individual analytics. Companies use data about customers to predict what each one needs next and then are able to treat different customers differently and increase mutual value with customers.

In Quadrants I through III, the focus is still primarily on the product to be sold, with an eye to finding customers for that product. In Quadrant IV, the direction of the strategy changes; the Quadrant IV company focuses on a customer and finds products for that customer.

To realize the highest possible return on the customer base, the goal of an enterprise will be to move up and to the right on the Enterprise Strategy Map.

To move up on the Enterprise Strategy Map, an enterprise has to be able to **recognize** individual customers' names and addresses, or at least coded identities, to send different messages to different customers, and to remember the responses of each.

To move to the right on the Enterprise Strategy Map, an enterprise has to be able to increase its production and logistics flexibility. The most flexible production would

entail customizing and delivering individual products for individual customers. The least flexible would be mass-producing a standardized product or service for a large market. (We talk more about customization in Chapter 10.)

COMPARING MARKET-SHARE AND SHARE-OF-CUSTOMER STRATEGIES

The story goes that in 1996, the executives at Barnes & Noble bookstores invited Jeff Bezos, the founder of a startup named Amazon.com, to lunch, with a proposition. Amazon.com had not yet made any profit (and would not, for its first 28 quarters in a row), so the nice guys at the well-established bookstore offered, as a favor to Jeff, to buy him out—before they launched barnesandnoble.com, the online version of the bookstore chain. They argued that Jeff’s relatively unknown brand would not stand up to their highly popular name and that he should make some money on his software and systems. He declined.

How did that turn out? Twenty-five years after that lunch meeting, Barnes & Noble was acquired by Elliott Management Corporation for US\$683 million and Amazon.com had a market cap of US\$1.7 trillion.⁵ When he stepped down as Amazon’s CEO in 2021, Bezos was the richest man on earth. So whether the lunch ever really took place or not, the story still serves to illustrate the fundamental difference between a very well run *product-oriented* company (Barnes & Noble, which has stores to populate with products and tries to find customers for those products) and a fairly well run *customer-oriented* company (Amazon.com, which got us all as customers to buy books and DVDs, and now wants to sell each of us everything). *Note:* One of this book’s authors, who lives in New York City, found the best selection and service from Amazon.com when she was looking for a refrigerator to buy and have installed in her Upper West Side apartment.

A lot can be understood about how traditional, market-driven competition is different from today’s customer-driven competition by examining Exhibit 1.3. The direction of success for a traditional aggregate-market enterprise (i.e., a traditional company that sees its customers in markets of aggregate groups) is to acquire more customers (widen the horizontal bar), whereas the direction of success for the customer-driven enterprise is to keep customers longer and grow them bigger (lengthen the vertical bar). The width of the horizontal bar can be thought of as an enterprise’s market share—the proportion of total customers who have their needs satisfied by a particular enterprise, or the percentage of total products in an industry sold by this particular firm. But the customer-value enterprise focuses on **share of customer**— the percentage of this customer’s

⁵ Colin Dwyer, “Barnes & Noble Set to Be Sold to Elliott Management for about \$683 Million,” NPR, June 7, 2019, available at <https://www.npr.org/2019/06/07/730638739/barnes-noble-set-to-be-sold-to-elliott-management-for-about-683-million>, accessed August 17, 2021; “Amazon.com, Inc. Common Stock (AMZN),” Nasdaq, available at <https://www.nasdaq.com/market-activity/stocks/amzn>, accessed August 17, 2021.

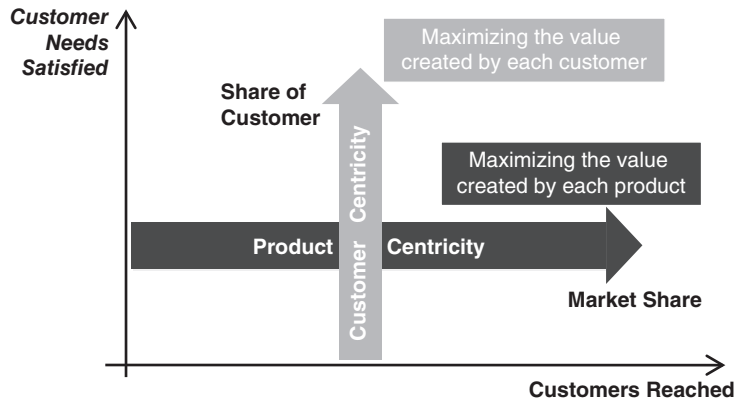


EXHIBIT 1.3 Objective of Customer Centricity

business that a particular firm gets—represented by the height of the vertical bar. Think of it this way: Kellogg’s can either sell as many boxes of Corn Flakes as possible to whoever will buy them, even though sometimes Corn Flakes will cannibalize Raisin Bran sales, or Kellogg’s can concentrate on making sure its products are on Mrs. Smith’s breakfast table every day for the rest of her life, thus representing a steady or growing percentage of that breakfast table’s offerings. Toyota can try to sell as many RAV4s as possible, for any price, to anyone who will buy; or it can, by knowing Mrs. Smith better, make sure all the cars in Mrs. Smith’s garage are Toyota brands, including the used car she buys for her teenage son, and that Mrs. Smith uses Toyota financing, and gets her service, maintenance, and repairs at Toyota dealerships throughout her driving lifetime.

Although the tasks for growing market share are different from those for building share of customer, the two strategies are not antithetical. A company can simultaneously focus on getting new customers and growing the value of and keeping the customers it already has.⁶ Customer-strategy enterprises are required to interact with a customer and use that customer’s feedback from this interaction to deliver a customized product or service. Market-driven efforts can be strategically effective and even more efficient at meeting individual customer needs when a customer-specific philosophy is conducted on top of them. The customer-driven process is time-dependent and evolutionary, as the product or service is continuously fine-tuned and the customer is increasingly differentiated from other customers.

The principles of a customer-focused business model differ in many ways from mass marketing. Specifically: The aggregate-market enterprise competes by differentiating products, whereas the customer-driven enterprise competes by differentiating customers.

The traditional, aggregate-market enterprise attempts to establish an actual product differentiation (by launching new products or modifying or extending established

⁶ Bernd W. Wirtz and Peter Daiser, “Business Model Development: A Customer-Oriented Perspective,” *Journal of Business Models* 6, no. 3 (2018): pp. 24-44; Srividya Sridharan, “Evolve Your Approach to Acquisition and Retention,” Forrester Research, Inc., December 12, 2012, available at www.forrester.com.

product lines) or a perceived one (with advertising and public relations). The customer-driven enterprise caters to one customer at a time and relies on differentiating each customer from all the others.

The traditional marketing company, no matter how friendly, ultimately sees customers as adversaries, and vice versa. The company and the customer play a zero-sum game: If the customer gets a discount, the company loses profit margin. Their interests have traditionally been at odds; the customer wants to buy as much product as possible for the lowest price, while the company wants to sell the least product possible for the highest price. If an enterprise and a customer have no relationship prior to a purchase, and they have no relationship following it, then their entire interaction is centered on a single, solitary transaction and the profitability of that transaction. Thus, in a transaction-based, product-centric business model, buyer and seller are adversaries, no matter how much the seller may try not to act the part. In this business model, practically the only assurance a customer has that they can trust the product and service being sold to them is the general reputation of the brand itself.⁷

By contrast, the customer-based enterprise aligns customer **collaboration** with profitability. Compare the behaviors that result from both sides if each transaction occurs in the **context** of a longer-term relationship. For starters, a one-to-one enterprise would likely be willing to fix a problem raised by a single transaction at a loss if the relationship with the customer were profitable long term (see Exhibit 1.4).

EXHIBIT 1.4 Comparison of Market-Share and Share-of-Customer Strategies

Market-Share Strategy	Share-of-Customer Strategy
Treat different products differently.	Treat different <i>customers</i> differently.
Maximize the value each product creates.	Maximize the value each customer creates.
Focus on each product's attributes and benefits.	Focus on each customer's <i>experience</i> .
Differentiate products from competitors.	Differentiate customers from each other.
Sell to customers.	Collaborate <i>with</i> customers.
Treat customers as on-off switches.	Treat customers as volume dials.
Task product managers to find a continual stream of new customers for each product.	Task customer managers to meet more needs for each customer.
Use mass media to offer all products to an audience of potential customers.	Use interactive media to learn each customer's need and offer the right product to meet that need.

⁷ Marco Bertini and John T. Gourville, "Pricing to Create Shared Value," *Harvard Business Review*, June 2012, available at <https://hbr.org/2012/06/pricing-to-create-shared-value>, accessed August 17, 2021. See also Don Peppers and Martha Rogers, Ph.D., *The One to One Manager* (New York: Doubleday, 1999).

The central purpose of managing customer relationships and experiences is for the enterprise to focus on increasing the overall value of its customer base—and customer retention is critical to its success. Increasing the value of the customer base, whether through cross-selling (getting customers to buy other products and services), upselling (getting customers to buy more expensive offerings), or customer referrals, will lead to a more profitable enterprise. The enterprise can also reduce the cost of serving its best customers by making it more convenient for them to buy from the enterprise (e.g., by using Amazon’s one-click ordering process, or online banking rather than a bank teller).

And although technology accelerates customer relationships, it is not the same as building customer value. While one-to-one customer relationships are enabled by technology, executives at firms with strong customer relationships and burgeoning **customer equity (CE)** believe that the enabling technology should be viewed as the means to an end, not the end itself. Managing customer experiences and relationships is an ongoing business process, not merely a technology.

While enterprises are experimenting with a wide array of technology and software solutions from different vendors to satisfy their customer-driven needs, they are learning that they cannot depend on technology alone to do the job. Before it can be implemented successfully, managing customer relationships individually requires committed leadership from the upper management of the enterprise and wholehearted participation throughout the organization as well. Although customer strategies are driven by new technological capabilities, the technology alone does not make a company customer-centric. The payoff can be great, but the need to build the strategy to get, keep, and grow customers is even more important than the technology required to implement that strategy.

The foundation for an enterprise focused on building its value by building the value of the customer base is unique: Establish trustable relationships with customers on an individual basis, then use the information gathered to treat different customers differently and increase the value of each one to the firm.

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The firms that are best at building customer value are not the ones that ask, “How can we use new technologies to get our customers to buy more?” Instead they are the companies that ask, “How can we use new technologies to deliver more value to our customers?”

WHAT IS A RELATIONSHIP? IS THAT DIFFERENT FROM CUSTOMER EXPERIENCE?

What does it mean for an enterprise and a customer to have a *relationship* with each other? Do customers have relationships with enterprises that do not know them? Can the enterprise be said to have a relationship with a customer it does not know? Is a relationship possible if the company knows the customer and tailors offers and communications, remembers things for the customer, and deliberately builds customer experience—even if the customer is not aware of a relationship? Is it possible for a customer to have a relationship with a brand? Perhaps what is thought to be a customer’s “relationship with a brand” is more accurately described as the customer’s attitude or predisposition toward the brand. This attitude is a combination of impressions from actual experiences with that brand, as well as what one has heard about the brand from ads (company-originated communication), from news, and from others (comments from friends and ratings by strangers). Experts have studied the nature of relationships in business for many years, and there are many different perspectives on the fundamental purpose of relationships in business strategies.

This book is about managing customer relationships and experiences more effectively in the 21st century, which is governed by a more individualized approach. The critical business objective can no longer be limited to acquiring the most customers and gaining the greatest market share for a product or service. Now that it’s possible to deal individually with separate customers, the business objective must include establishing meaningful and profitable relationships with, at the least, the **most valuable customers**, and making the overall customer base more valuable. Technological advances during the last quarter of the twentieth century have mandated this shift in philosophy.

Managing the customer relationship is all about what the company does, and customer experience is what the customer feels like as a result.

In short, the enterprise strives to get a customer, keep that customer for a lifetime, and grow the value of the customer to the enterprise. Relationships are the crux of the customer-strategy enterprise. Relationships between customers and enterprises provide the framework for everything else connected to the customer-value business model, even if the customer is not aware of the relationship. After all, the customer is aware of what they experience with the company. In fact, we could say that *managing the customer relationship is all about what the company does, and customer experience is what the customer feels like as a result*. The exchange between a customer and the

enterprise becomes mutually beneficial, as customers give information in return for personalized service that meets their individual needs. This interaction forms the basis of the **Learning Relationship**, based on a collaborative dialogue between the enterprise and the customer that grows smarter and smarter with each successive interaction.⁸

Who Is the Customer?

Throughout this book, we refer to *customers* in a generic way. To some, the term will conjure up the mental image of shoppers. To others, those shoppers are *end users* or *consumers*, and the customers are upstream businesses in the distribution chain—the companies that buy from producers and either sell directly to end users or manufacture their own product. In this book, *customer* refers to the constituents of an organization, whether it's a business-to-business (B2B) customer (which could mean the purchasing agent or user at the customer company, or the entire customer company) or business-to-consumer (B2C) customer (an individual or a family/household)—or, for that matter, a hotel patron, a hospital patient, a charitable contributor, a voter, a university student or alumnus, a blood donor, a theme-park guest, and so on. That means the *competition* is anything a customer might choose that would preclude choosing the organization that is trying to build a relationship with that customer. The word *customer* includes both current and prospective buyers and users.

How to Think about Customer Experience

In our view, any useful definition of customer experience should be based on straightforward language, while at the same time clearly differentiating the term from all the other marketing terms and buzzwords, such as customer service, brand preference, customer satisfaction, CRM, or customer loyalty. (See Chapter 3 for a deeper dive into customer experience.)

Customer experience is the sum total of a customer's individual interactions with a product or company, over time.

- *Individual* means that we are talking about each different customer's own individual perception or impression of the experience. What you intend to provide a customer is not nearly so important as how the customer perceives what you provide.
- *Interactions* occur in **addressable** or reciprocal channels, that is, outside of mass media. Marketing campaigns, taglines, and brand messages may be important, but they aren't interactions, so they lie outside the domain of customer experience. By contrast, improving your mobile app by, for instance,

⁸ B. Joseph Pine II, Don Peppers, and Martha Rogers, Ph.D., "Do You Want to Keep Your Customers Forever?" *Harvard Business Review* 73, no. 2 (March–April 1995): 103–114.

(continued)

embedding voice or chat connections into it would definitely improve your customer experience. Similarly, when a company makes it easier for a prospect to find information about its product, that company is improving the customer experience even though the prospect may never actually become a customer.

- When we talk about customer experience, we are only including direct contact. On the one hand, the interactions a customer has in person or online with *other* people or companies about a brand, product, or company are *not* really part of the customer experience. On the other hand, how your company actually *engages* with customers and prospects within various social channels is a direct interaction, and thus part of the customer experience.
- Customer experience applies to all of a company's marketing, selling, and servicing entities. This includes dealers and distributors, marketing and advertising agencies, any retailers that sell your product, and any service firms that install or repair your company's product or that handle customer inquiries or interactions of any kind. For each of these interactions, you can contract out the task but not the responsibility—at least not as far as the customer is concerned.
- Each customer's experience is not an isolated event; it accumulates through time. For instance, a company improves its customer experience by making it easier for a repeat customer to pull up what they ordered before, or configured before, and do it instantly, or when a call-center agent already knows what a prospect was recently looking up on the website.
- A company cannot improve customer experience without considering all of these issues, including how each one impacts the others. Integrating all interaction channels is one of the first, and possibly the most important, steps a company can take to improve customer experience.

LEARNING RELATIONSHIPS: THE CRUX OF BUILDING CUSTOMER VALUE

The basic strategy behind Learning Relationship (Quadrant IV in Exhibit 1.2) is that the enterprise gives a customer the opportunity to teach it what they want so the company can remember it, give it to them, and keep their business. The more the customer teaches the company, the better the company can provide exactly what the customer wants, and the more the customer has invested in the relationship. Ergo, the customer will more likely choose to continue dealing with the enterprise rather than spend the extra time and effort required to establish a similar relationship elsewhere.⁹

The Learning Relationship works like this: If you're my customer and I get you to talk to me, and I remember what you tell me, then I get smarter and smarter about you. I know

⁹ B. Joseph Pine II, Don Peppers, and Martha Rogers, Ph.D., "Do You Want to Keep Your Customers Forever?"

something about you that my competitors don't know. So I can do things for you my competitors can't do, because they don't know you as well as I do. Before long, you can get something from me you can't get anywhere else, for any price. At the very least, you'd have to start all over somewhere else, but starting over is more costly than staying with me. As long as you like me and trust me to look out for your best interests, you're likely to do more of your business with me.

This happens every time a customer buys groceries by updating their online grocery list or adds a favorite movie to “My Stuff” on their favorite streaming provider. Even if a competitor were to establish exactly the same capabilities, a customer already involved in a Learning Relationship with an enterprise would have to spend time and energy—sometimes a lot of time and energy—teaching the competitor what the current enterprise already knows. This creates a significant **switching cost** for the customer, as the value of what the enterprise is providing continues to increase, partly as the result of the customer's own time and effort. The result is that the customer becomes more loyal to the enterprise because it is simply in the customer's own interest to do so. It is more worthwhile for the customer to remain loyal than to switch. As the relationship progresses, the customer's convenience increases, and the enterprise becomes more valuable to the customer, allowing the enterprise to protect its profit margin with the customer, often while reducing the cost of serving that customer.

Learning Relationships provide the basis for a completely different arena of competition, separate and distinct from traditional, product-based competition. An enterprise cannot prevent its competitor from offering a product or service that is perceived to be as good as its own offering. Once a competitor offers a similar product or service, the enterprise's own offering is reduced to commodity status. But enterprises that engage in collaborative Learning Relationships with individual customers gain a distinct competitive advantage because they know something about one customer that a competitor does not know. In a Learning Relationship, the enterprise learns about an individual customer through their transactions and interactions during the process of doing business. The customer, in turn, learns about the enterprise or the website through their successive purchase experiences and other interactions. Thus, in addition to an increase in customer loyalty, two other benefits come from Learning Relationships:

1. *The customer learns more about their own preferences from each experience and from the firm's feedback, and is therefore able to shop, purchase, and handle some aspect of their life more efficiently and effectively than was possible prior to this relationship.*
2. *The enterprise learns more about its own strengths and weaknesses from each interaction and from the customer's feedback, and is therefore able to market, communicate, and handle some aspects of its own tactics or strategy more efficiently and effectively than was possible prior to the relationship.*¹⁰

¹⁰ Steve Blank, “Why the Lean Startup Changes Everything,” *Harvard Business Review*, May 2013, available at <https://hbr.org/2013/05/why-the-lean-start-up-changes-everything>, accessed August 17, 2021; Katherine Lemon, Don Peppers, and Martha Rogers, Ph.D., “Managing the Customer Lifetime Value: The Role of Learning Relationships,” working paper.

Cultivating Learning Relationships depends on an enterprise's capability to elicit and manage useful information about customers. Customers, whether they are consumers or other enterprises, do not want more choices. Customers simply want exactly what they want—when, where, and how they want it. And technology is now making it more and more possible for companies to give it to them, allowing enterprises to collect large amounts of data on individual customers' needs and then use that data to customize products and services for each customer—that is, to treat different customers differently.¹¹ This ability to use customer information to offer a customer the most relevant product at the right price, at the right moment, is at the heart of the kind of customer experience that builds loyalty and share of customer.

Customers, whether they are consumers or other enterprises, do not want more choice. Customers simply want *what they want*, when, where, and how they want it.

One of the implications of this shift is an imperative to consider and manage the two ways customers create value for an enterprise. We've already said that a product focus tends to make companies think more about the value of a current transaction than the long-term value of the customer who is the company's partner in that transaction. But building Learning Relationships has value only to a company that links its own growth and future success to its ability to keep and grow customers, and therefore commits to building long-term relationships with customers. This means we find stronger commitments to customer trust, employee trust, meeting community responsibilities, and otherwise thinking about long-term, sustainable strategies. Companies that are in the business of building the value of the customer base are companies that understand the importance of balancing short-term and long-term success. We talk more about that in Chapters 6 and 11.

¹¹ David C. Edelman and Marc Singer, "Competing on Customer Journeys," *Harvard Business Review* 93, no. 11 (November 2015): 88–100.