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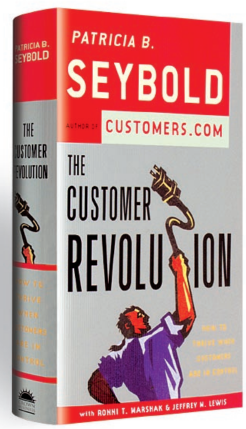

By Patricia B. Seybold with
Ronni T. Marshak and
Jeffrey M. Lewis

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THE CUSTOMER REVOLUTION

THE SUMMARY IN BRIEF

Fasten your seatbelts! We're in the middle of a profound revolution, bigger than anything we have seen yet. It's the customer revolution. Customers have taken control of our companies' destinies. They've taken control of our industries and are reshaping them from the outside in. While some characterize the changes taking place as the new economy, the Internet economy or the knowledge economy, Patricia Seybold, the best-selling author of the book *Customers.com*, simply calls it the "customer economy." To survive in this customer economy, you need to respond to customer demands for changes in the way you design and deliver products and services. In this summary, you will learn exactly what you need to do to embrace the customer revolution and profit from it. You will see how to:

✓ **Listen to the Beat of the Customer Revolution.** Customers know what they want, and they are demanding it. They want great service, fair prices and innovative offerings.

✓ **Create Customer Loyalty.** Today, your business's most valuable asset isn't investment capital, products, employees or even a brand. It's customer relationships. The value of your present and future customer relationships — your customer franchise — will determine the value of your company.

✓ **Manage for Customer Value.** Do this by focusing on delivering customer value. Give customers what they want, not what you think they should want. Look at the world through their eyes. A customer-driven culture is essential to success.

✓ **Monitor and Improve Customer Experience.** For the first time in history, it's possible to establish a personal relationship with every customer. Learn how to monitor the customer experience and make needed changes almost in real time. The feelings your customers have when they interact with your brand determine their loyalty. Make the experience a great one.

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The Three Principles of the Customer Economy

According to author Patricia Seybold, three principles underpin today's shift to the customer economy:

1. Customers are in control. Customers are reshaping businesses and transforming industries.

2. Customer relationships count. The value of your present relationships (your customer franchise) will determine the value of your company.

3. Customer experience matters. The feelings customers have when they interact with your brand determine their loyalty.

In the first part of this summary, we will look at each of these three principles in depth. The second part of this summary presents an eight-step operational framework that will help you ensure that your company thrives in the customer economy. ■

Principle #1: Customers Are in Control

What happens when customers take control of an industry and reshape it? The music industry knows.

With the rapid development and distribution of programs that let computer users swap and download digital music files, customers have taken control of the industry. No longer does a music fan have to buy an entire album to get the one or two song tracks he wants. Instead, he searches the Internet for digital files containing the tracks, and downloads them to his computer without paying a dime.

Once the tracks are on his computer, he can burn them onto a CD for play on a stereo system, listen to them while driving or jogging or even use them as sound effects on his mobile phone. Meanwhile, neither the record companies nor the artists who created the music see any profit from their work.

Clearly customers are in control, and they want access to their favorite music without having to pay for what they don't want. The challenge for the music industry is to find ways for customers to have what they want and still find a profitable business model.

How Customers Will Reshape Soft Goods Industries

If you're in the business of selling soft goods, such as books, software or other intellectual property, your customers are already seizing control. They are demanding more than they ever have before, and smart businesses will find a way to change their business models to accommodate those demands. Expect customers to demand the following:

- **Customers will try before they buy.** Customers want to download, install and use your product before they pay for it. The challenge is to give them enough of the product free so they can assess the value of, for example, a book or movie.
- **Customers will buy by the piece.** You must offer your intellectual property in small, bite-sized chunks.
- **Customers will mix and match.** They want to combine your products with other manufacturers'. You must design your goods to be compatible.
- **Customers will want to reshape and repurpose your goods.** Once customers have your digital information, they will want to use it in ways you never imagined. For example, a favorite music track may be used as the ringer soundtrack for a cell phone.
- **Customers will want to share with others.** Customers want to share. Make it easy rather than hard and think of it as viral marketing rather than piracy.
- **Customers will want to publish their own "mixes."** Work hard to maintain your brand through the process.

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Principle #1: Customers Are in Control

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- **Customers will want to co-brand your material.** Most customers value the source of the material they want to mix, share or change, and will co-brand rather than outright steal.

The Digital Dozen

The turmoil in the music industry is an example of what can happen in any industry when customers, armed with fairly simple technology, begin to alter the long-standing practices and relationships in an industry.

In the past, customers received information on a need-to-know basis. Now, customers want to know everything — your prices, inventory, new product development and even mistakes.

In today's digital business world, your company must prepare for the following customer demands:

1. Open, equal access to electronic resources like instant stock trades.

2. Real-time information with access to inventory availability and notification when there is a problem.

3. Specialist information, especially details about medical research, clinical trial information and drug information. They don't want to have the information filtered through an expert.

4. Convenient access to medical records, scheduling appointments, news, reservations, directions to the nearest coffeehouse or restaurant, and much more.

5. Information to be portable. They want to easily move bank and brokerage accounts and phone numbers when they change service providers.

6. Process transparency. When they order a computer, they want to know the status of that order at every stage of the manufacturing of that computer.

7. Logistics transparency. They want to know where their shipment is from the moment it is shipped until it is delivered.

8. Pricing transparency. They know, thanks to the Internet, what the lowest price for every product is, and they don't want to pay more.

9. Fair, global pricing. In the U.K., consumers have traditionally paid more than their European counterparts for cars. That is changing even as local dealers are refusing to lower prices, as customers order from overseas and arrange for delivery.

10. The ability to set their own prices, either individually or by buying collectively.

11. Choice in distribution channels. They want to be able to buy on the Internet as well as through other channels, but they want the choice to be theirs.

12. Control over their information. Customers are demanding control over their information, at once demanding that companies keep track of information about them, but keep the information private. ■

Principle #2: Customer Relationships Count

How much is your company worth?

In the customer economy, the market value of your business is directly proportional to the value of your customer relationships. The value of these relationships can be determined by calculating the *lifetime value* of your current customers (in other words, the total earnings you expect to receive from current customers) and your presumed future customers (the total earnings you expect to receive from future customers).

The lifetime value of your *current* customers is known as **customer capital**. Customer capital — which takes into account factors such as the number of active customers, which customer segment they belong to, the current average profit per customer in each segment, the cost to acquire each customer, the retention rate and the anticipated growth or decline in profits per customer — should have already been calculated by your marketing department.

The lifetime value of your *presumed future* customers is known as **customer momentum**. To determine customer momentum, you will have to work with some assumptions based on your current customer profiles. These assumptions include how much it will cost to acquire a new customer, what the average profit will be for each new customer, how fast earnings per customer will be, and what the likely retention rate is for those customers.

If you add customer capital (the total earnings you expect to make from your current customers) and customer momentum (the total you expect to earn from

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Educating Investors on the Value of the Customer Franchise

One of the first companies to actively educate its investors about the value of its customer franchise is Charles Schwab. Chris Dodd, the CFO, believes the investor community should have access to customer metrics. Schwab reports its net new customer accounts and its active customer accounts each quarter. It defines as active those accounts with balances or activity within the past 12 months and any online household that has had at least one online session in the same time frame.

Principle #2: Customer Relationships Count

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future customers), you have calculated what author Seybold calls your *customer franchise* — the total earnings from current and future customers.

What investors really care about when making investment decisions is the value of your customer franchise — in other words, the value of your relationships with current and future customers. ■

The Dawn of the Customer Economy

In January, 2000, America Online reached an agreement with Time Warner to purchase Time Warner for $165 billion. America Online had only $5 billion in revenue, while Time Warner had $28 billion. But AOL stock was worth $164 billion compared with $97 billion for Time Warner.

Look closer, and you will see the dawn of the customer economy. AOL reported it had 22 million subscribers to its online services, while Time Warner had 27.75 million cable and magazine subscribers. That meant that AOL's customers were valued at $7,455 each by investors while Time Warner customers were worth only $3,495.

The quality of customer relationships drives the value of AOL.

Principle #3: Customer Experience Matters

The feelings customers have when they interact with your brand determine their loyalty. Always deliver a great branded customer experience, so that customers have a positive experience every time they come in contact with the brand or someone representing the brand.

A branded customer experience is defined as a consistent representation and flawless execution, across distribution channels and interaction touchpoints, of the emotional connection and relationship you want your customers to have with your brand.

There's an art to creating an alluring branded customer experience. It takes more than a splashy ad campaign. Customers want products and services backed up by flawless customer service, expert advice and reliable delivery and support. They prefer a multi-touch, multi-channel experience; they want to touch and see products at their local outlet while ordering it at their leisure over the Internet. To create a great branded customer experience:

- Begin by creating a brand identity customers enjoy, a brand with personality that customers can relate to. You want customers to think of themselves as "Volvo people" or "Nordstrom shoppers."
- Build strong customer relationships with individual customers. You must find ways for your customers to interact with you. This requires that your company invest heavily in customer support infrastructures.
- Establish trust by delivering on promises and providing good value.
- Support the customers' preferred modes of interaction, whether by phone, catalog, store or the Internet. ■

Eight Steps to a Great Branded Customer Experience

Seybold studied companies from around the world that are singlemindedly focusing on customer value and on improving the total customer experience. Based on the best practices of these companies, Seybold developed an eight-step operational framework to help companies measure customer value, monitor customer experience and deliver a great total customer experience.

These eight steps are explored one-by-one in the remaining articles in this summary. ■

Step 1: Create a Compelling Brand Experience

Whether you're creating a brand identity from scratch or creating a branded customer experience to complement an existing brand, you need to start with a strong brand identity that customers can identify with. That means your brand identity needs to have a personality as well as a core brand idea.

When building your own brand, keep these considerations in mind:

Customers appreciate a brand identity that makes them feel good about themselves. The brand identity should be based on how customers want to see themselves.

Buzz helps launch a brand. That buzz needs to reinforce the brand image you are aiming for.

Every aspect of the customer experience, from store lighting to the way employees answer the phone, needs to be designed with the customer experience in mind. Monitor the quality of the customer experience carefully.

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Step 1: Create a Compelling Brand Experience

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How you display your merchandise is critical. Today's customers want and need to be able to touch, feel, and try out your products and services.

Sunday Communication's Brand Personality

One company that has succeeded in developing a brand personality and a core brand idea is Hong Kong's Sunday Communications Ltd. Sunday is in the mobile phone business, which has become a commodity business. The company has managed to create a strong brand identity in a crowded field and attracts some of the most demanding mobile phone customers in the world.

The company entered the market in 1997 with a logo and identity, and with the name Sunday. Why Sunday? Because the word evokes the image the company wanted to create; youthful, irreverent and innovative.

The company built up to its launch by running an ad campaign on Hong Kong's transit system with teasers like, "The average man thinks about it 20 times a day" and "You look like you haven't had it in weeks." The answer, of course, was time off on Sunday, but the public didn't know that yet. The ads were seen as too provocative, and banned, so the company placed an ad in a newspaper telling the public it would have to wait until Sunday, Sept. 21 for the answer.

On that date, the company opened its doors offering a new style of mobile service, a "mobile phone network that's all about living." The stores were bright and clean and the salespeople approachable. There were special features offered such as Mobile Assist, which could direct you to the nearest bank or restaurant. There was even a Mobile Cupid feature where you could be notified when an eligible single matching your profile signed up for service. Customers could also change their plans and upgrade their phones anytime they wanted. In short order, Sunday established itself as carefree, irreverent, convenient and fun.

Step 2: Deliver a Seamless Experience Across Channels and Touchpoints

Today's customers are demanding that companies offer them convenience and freedom of choice. They want to decide whether to call an order in, place the order on the Internet, or drop by the local branch or store. They want a seamless experience across channels and touchpoints, and expect the same level of service

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The Customer Flight Deck

Through the use of the Customer Flight Deck™ (see example below) you will have a framework within which you can begin to think about what metrics and measurements your company should be tracking in the customer economy.

Picture yourself in the cockpit of an airplane, your flight plan (strategic plan) filed. In front of you is an array of instruments you will need to safely reach your destination (to achieve the plan). You will have to monitor your *navigation* to make sure you are heading in the right direction, your *performance* to make sure all systems are functioning as they should, your *operational controls* to make sure you can make any adjustments you may need to make, and your *environment* to make sure the elements don't catch you unawares.

A Sample Flight Deck for Sunday

	Navigation	Performance	Operations	Environment
Customer Numbers	Number of customers Number of products and services per customer	Increase/decrease in number of customers by customer segment Increase/decrease in number of products/services per customer by customer segment	Number of new service sign-ups Number of services upgrades	Number of competitors' customers Number of non-customers (people who don't use wireless at all)
Customer Retention	Customer retention rate Upgrade frequency First availability percentage (has new phones and features before competition)	Customer retention rate by segment Frequency of new service offerings Popularity of new service offerings (percent uptake) Upgrade turn-around time New model availability	First-to-market ratio (how often are we first-to-market with a new service?) Manufacturing-to-market availability of new models of mobile phones	Competitive first-to-market percentage
Customer Experience	Unaided brand awareness rank Customer satisfaction rating Mystery shopper scores	Satisfaction with network quality Satisfaction with service quality: • Phone support • Problem resolution • Accuracy of billing • In-store experience	Network uptime Service metrics (first-call resolution, courtesy, knowledge, flexibilty, etc.)	Comparative satisfaction: • Wireless companies • All service companies
Customer Spending	Average spending per customer Profitability per customer Customer lifetime value	Percentage change in customer spending by customer segment Percentage change in profitability by customer segment	Effectiveness of advertising and marketing as measured in increased customer profitability Customer serivce and support costs	Total spending on wireless services Total spending on all communications services

Step 2: Deliver a Seamless Experience Across Channels and Touchpoints

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and support regardless of whether they shop online, via catalog or at a bricks-and-mortar store.

The term *touchpoint* describes the type of media through which customers interact with companies. Touchpoints include stores, telephones, mail, fax, kiosks and the Web. Customers choose which touchpoint to use depending on things like the time of day, the location of touchpoints and their preference at the moment. For example, a customer could order a computer over the Internet or by visiting a retailer.

The term *distribution channel* describes the business relationships set up by companies to make it easier to get products, services or information to their customers. In the past, the choice of distribution channels was made by companies, but that is changing. Customers who always bought through retailers in the past are demanding the ability to purchase goods and services directly. Today, a customer could order a computer through any number of distribution channels, including from a national retailer or directly from the manufacturer.

Lids Delivers Across Touchpoints and Channels

Lids is a company that understands what its customers want, and delivers. Lids was started by two college students in 1991 who noticed that the hip student uniform included baseball caps, but heard complaints about how hard it was to find those caps. Today, the company has over 500 retail outlets and a thriving Internet business.

At first, small stores were placed in malls, where the target market, males between 12 and 24 years old, gathered. Lids offered a one-stop shop for a wide variety of baseball caps. What wasn't in stock could be ordered and either delivered to the buyer's home or the store for pick-up.

By 1998, Lids added an online store. The entire inventory was made available online. A special cash card was made available in stores, allowing parents or students to create a debit card that could be used online or in the physical store. Databases were merged so that buyers could buy online or in stores, and have those purchases tracked.

To increase customer loyalty, Lids initiated a frequent buyer program called HeadFirst™, which gave customers a free hat after purchasing seven hats. Purchases on the Internet and in retail stores were automatically tracked for the reward. Within two years, there were 1.5 million active HeadFirst™ customers, each buying an average of 7.5 hats per year! By allowing customers choices of channels and touchpoints, Lids has captured a large share of the teen and young adult hat market.

Channel Conflict

If your company does decide to begin selling across channels, your success will depend on how you evolve your relationships with channel partners — especially if those partners come to believe that by selling directly or opening up additional channels, you are hurting their business by drawing customers away from them. Dealers and retailers are intent on owning their relationships with customers, while those same customers are demanding access to alternative channels and looking to the manufacturer to provide those.

Channel partners must be educated on what customers want today. They must understand that customer information must be shared. There is no other way to operate in the customer economy. But you may have to design special compensation systems for your channel partners to take some of the bite out of their fear that additional channels will eat into their profits. ■

Step 3: Care About Customers and Their Outcomes

The companies with the right stuff to thrive in the customer economy are those that have a corporate culture and set of core values centered around caring about customers — not as revenue targets, profit contributors or advertising magnets, but as people. Customer loyalty and lifetime customer value are two key metrics that foreshadow success in the customer economy. You can't build either one if you don't truly care about your customers and their outcomes — in other words, what the customer is trying to accomplish by buying your product or service.

Hewlett Packard Cares

How do you build a customer-centric culture from scratch? Instilling deep values in your employees from the outset is one step. You must also give customers great service, treat them with respect, offer a fair deal that is easy to understand and provide highly personalized service.

One company that has successfully moved from being product-centric to customer-centric is Hewlett Packard. HP was a company with a good reputation for products among its customers, but it was not delivering a seamless customer experience. In 1999, Carly Fiorina became CEO. One of the first changes she made was to organize HP into five business units: two customer-fac-

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Step 3: Care About Customers and Their Outcome

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ing organizations for consumer and business customers, supported by three product-generation organizations. To become more customer-centric, Fiorina changed the way executives were measured and compensated to include accountability for customer satisfaction, customer experience and customer loyalty. ■

Step 4: Measure What Matters to Customers

Most companies measure and monitor sales and profits, customer growth and defection, inventory turns and profit margins. If they have a Web site, they also measure hits and clicks, unique visitors and abandoned carts. But none of these metrics matter to your customers. They can't help you improve your customer's experience in doing business with you. The companies that will be pulling ahead over the next few years are those that take the quality of their customers' experience very seriously. To compete with them, you'll need to assess the entire quality of the experience whether they interact with you or through your partners.

Your business should be designed around the outcomes that your target customers are trying to achieve. The first step toward measuring what matters to customers is to make a list of the most common tasks your customers need to do. Try them yourself to discover how easy or difficult it is for customers to interact with you. Track things like the average number of calls per customer, per order and per customer incident. See how long customers wait for an answer. Another measure of the customer experience is to send out a "mystery shopper" to your and your partners' retail outlets and have them rate the quality of their customer experience. ■

Step 5: Hone Operational Excellence

Once you know what your customers' experience is like, you need to hone that experience. One way to do that is to design your back-end processes first, before you introduce a service to customers. Design the system from the customer's point of view.

One company that has done this well is the U.K. grocer, Tesco. Before launching an Internet grocery order and delivery system, the company looked at its infrastructure. Because it already did a great job of keeping track of in-store inventory, and had retail outlets across the U.K in almost every neighborhood, it decided to fulfill online orders through its local stores. Customers could place an order and arrange for delivery of the same goods that they would buy if they went to their local store.

Tesco takes orders and then sends pickers into the store dressed in a uniform that advertises the online operation. Customers making their way through the aisles naturally wonder why they are wasting their time when for a few pounds, their groceries could be delivered. And Tesco did not have to set up separate warehouses for the online division. In addition, the customer databases for online and in-store shopping are merged, so that the company has access to complete information about customer preferences, (which is helpful when a substitution has to be made). The results are impressive. Tesco has 750,000 registered customers and has blanketed 90 percent of the U.K. ■

Satisfactory Outcomes

Customer-centric companies care about the customer outcome. To measure customer outcome, find out, through tools such as surveys, what the customer experience was like. However, be sure that you don't bombard customers with requests for information, especially if they use various channels to do business with you. Put a system in place that surveys customers no more than once a year.

Step 6: Value Customers' Time

What frustrates customers most? When you waste their time! Companies that become fanatical about not wasting time are the ones that will thrive in the customer economy. If you are serious about your customers' time, focus on:

- **streamlining decision-making,**
- **offering ubiquitous, convenient access,**
- **designing processes using customer scenarios.**

To streamline customer decision-making, organize the information customers need to make a decision. For example, if you offer a Web-based search engine, allow searches by key word, category and model. Offer side-by-side comparisons, photographs and illustrations. Let customers know about delivery methods and time frames. Provide access to installation and troubleshooting information. Offer customers ways to contact you 24 hours a day.

If you design your processes using customer scenarios, you will be doing a lot to eliminate wasted time. A customer scenario is a set of tasks that a customer wants or is willing to do to achieve a desired outcome. It starts with a customer's need and ends with the goal achieved.

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Step 6: Value Customers' Time

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The better you understand what the customer wants, the better you are able to deliver.

Examples of consumer customer scenarios are paying the household bills, replacing a refrigerator, selecting and buying a car, and applying for and getting a mortgage. Examples of business customer scenarios are booking travel for a business trip, researching and procuring a new phone system for your business or locating and procuring the parts for a new product you're about to manufacture.

The best way to master customer scenarios is to start by creating a few yourself, then get your customers to do their own scenarios, and then refine your designs based on customer input and priorities. It is best to do between three and six scenarios for each target customer set. Look at the organizational and business process issues the scenarios raise. Then have your IT people map out the infrastructure and services that will be required to support each scenario. ■

Step 7: Place Customer DNA at the Core

A great way to build customer loyalty is to simplify customers' lives by managing things that are important to them. Customers are increasingly willing to use electronic services to manage portions of their lives, such as record keeping, bill paying and managing photo collections. Business customers want to manage inventory, replenish office supplies and manage their supply chain. This broad category of customer and project or task-specific information is your customer DNA — it triggers the actions that need to take place and informs all the interactions among participant players.

Just as biological DNA orchestrates the body's processes, customer DNA attracts the right services, in the right context, at the right time. If your car needs service, an appointment may be offered and scheduled. If your inventory needs replenishment, your approved suppliers and logistics partners spring into action.

One company that is simplifying the lives of its customers by managing information is Medscape. The company helps physicians run better practices by allowing them to manage patient files electronically rather than through the traditional paper route. The company also allows patients access to those medical records and provides doctors with online medical information. The company wants to improve the core relationship between patients and their doctors by saving time for doctors, giving more information to patients, and improving the quality of information available to both. ■

Step 8: Design to Morph

Today, you can almost expect to change your business model four times a year. There is something fundamentally different about running a business in the new customer economy. The fact is, you probably will have to change your business on the fly. The question isn't if, but when. Here are some rules to help you decide whether it is time:

- **It feels right.** Trust your intuition. There's no business logic or market research that can rival human intuition.
- **Your customers give you clues.** When customers begin asking for new services, listen.
- **Would-be customers give you clues.** Listen when potential customers ask you if you could offer a particular service.
- **Existing partners want you to provide a service for them.** Sometimes your partners ask for specialized services that will make their partnering easy. Listen. You may be able to provide a service and collect a fee.
- **Would-be partners want you to provide a service.** Assign someone on staff the responsibility of evaluating partnering offers.
- **You know you are onto something but haven't quite nailed it.** Sometimes it's best to run several promising initiatives parallel to each other until you see which one takes off.
- **The market begins to shift away from your business model.** You must stay on top of market trends, and be vigilant about capturing new customers who may not look and act like your old customers.
- **Your business model is still taking shape.** Sometimes you attract a market niche you weren't targeting in your original business plan. When you do, it may be time to change the business plan to reflect the market you have found.

Once you know that you need to morph, it's time to get moving. First, make sure you **keep your branded customer experience in the faces of your customers**. Customers feel comfortable with the familiar. Next, **invest heavily in core infrastructure and operational excellence.** These are the mechanisms and services that support your branded customer experience. **Leverage your core services as an asset.** If your strength is inventory control and efficient delivery, use that strength as you expand into new areas. Amazon.com does this every time it adds a partner to sell a wider variety of goods. It also helps to **stay with trusted leadership** as you expand into new areas. Finally, it helps to **have supportive and patient executives and investors.** ■