

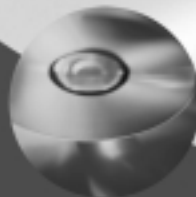
Building Interactive Customer Relationships



Institute for the Future

Communications Strategies, 2001

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Preface

This *Communication Strategies* program report, *Building Interactive Customer Relationships*, explores the consumer behaviors, technologies, and innovative strategies likely to shape the evolution of business-to-consumer relationships in the next ten years.

Consumers have always maintained a wide variety of relationships with businesses. Such relationships can be personal, like those with the owner of a neighborhood store or an insurance agent who happens to be a long-time family friend. Or they can be impersonal—hundreds of customers passing anonymously through megastores day in and day out.

In general, as the retail industry has evolved from small local stores to large international chains in the past century, the impersonal relationships have come to predominate. Indeed, the notion of personal relationships with local store proprietors who know a customer and her family by name, and can anticipate exactly what that customer needs, are largely figments of nostalgia. People yearn for these more personal shopkeepers because they are so rare.

It is a mistake to dismiss such yearnings out of hand, however. For companies struggling with declining customer loyalty and

diminishing margins in an increasingly cut-throat marketplace, the return to such relationships, or more precisely, the reinvention of such relationships in 21st century form, can be a real competitive advantage.

To this end, smart companies are quickly moving new technologies and communication channels that promise a more interactive relationship with their customers to the top of the “business-critical” list. In fact, a recent survey of Global 1000 executives conducted by AMR research found that 87% of respondents are planning to sustain or increase investments in customer management initiatives despite the anticipated economic downturn.

While these technologies are critical to enabling a new generation of business-to-consumer relationships, the technologies themselves are not a panacea. No, the *appropriate use* of these technologies and new communication channels in the relationship-building process will be the essential springboard to success.

To determine the appropriate use of such technologies, companies must develop a deep understanding of consumers—what they value in their relationships with businesses, how they use communication channels to interact, and how they make purchasing decisions. Although businesses must respond quickly in this rapidly changing environment, speed is second to understanding the fundamental changes in business-to-consumer communications and responding appropriately.

To help companies do so, this report has four chapters:

- Chapter 1 examines the consumer perspective on relationships in general and business-to-consumer relationships in particular and presents a framework for understanding

the development of such relationships in an interactive environment.

- Chapter 2 takes a close look at how consumers at different education, sophistication and income levels utilize different channels to communicate, get information, and make purchasing decisions.

- Chapter 3 explores the changing role of media and how companies can use the framework laid out in Chapter 1 to develop integrated communication strategies for building and maintaining relationships with customers.

- Chapter 4 presents alternative models for how businesses can effectively integrate communications with customers across multiple channels.

What Consumers Want in a Business Relationship

In our ongoing research of consumer behavior, the Institute for the Future (ITF) regularly conducts one-on-one and group interviews and surveys with consumers to explore their attitudes and perceptions about their relationships with businesses. What we've found is, in general, even in a world with an ever-increasing number of communications options, it is the highly personal interactions that stick with people.

This is nothing new. Consumers have always viewed the people and businesses they know well, where the interactions are personal and informal, as the foundation of their relationship networks. What is new is that people are learning to build and maintain such personal relationships via many new channels—e-mail, chat rooms, personal Web pages, instant messages, mobile phones, PDAs (personal digital assistants), buddy lists, and other new ways of staying in touch. By means of such technology, people are forming and maintaining relationships in spite of distance, cultural and language differences, and time.

As a result, there are many different levels of personal and business relationships and many ways to build and maintain them. For businesses, it is important to understand how business-to-consumer communications are changing, and how business can adapt to these changes and stay in touch with their best customers.

CONSUMERS ON RELATIONSHIPS

At its core, a business-consumer relationship is like any other relationship. Two parties come together in some way to fulfill mutual needs. To understand how to build customer relationships, then, it is important to understand the dynamics of relationship building in general. As with the development of personal relationships, there are some basic guiding principles. These include:

1. First impressions count
2. Get the value exchange right
3. Real-time interaction reinforces the relationship
4. Information must be used appropriately
5. Trust is the cornerstone

Combined, these principles can provide the foundation for effective business-to-consumer relationships that will continue to evolve over the next decade.

First Impressions Count

The first encounter between two people sets the stage for how the relationship may (or may not) progress. For a business trying to attract new customers, it is no different. Psychological studies suggest that people rely too much on first impressions. They tend to use this first piece of information as the basis for making additional judgments or evaluations, and only reluctantly change their minds later. For example, if consumers are favorably impressed by an advertising campaign for a product or service, they are much more likely to interpret additional information about that product or service positively—and vice versa.

A classic example of a first impression gone awry is targeted direct mail that comes with the consumer's name misspelled. What was intended to personalize the communication instead alienates the consumer from that company. One man in our study described such an experience:

You know when you write your name and you misspell your name on a thing and then [a company] sends all the mail to you with your name misspelled and you know that they just don't know you at all? ...It hurts them, because it makes them look like idiots. ...They have some computer program that's doing all this stuff. ... They run the risk of alienating you in a big way. ...They're treating

you like a number and that's the exact opposite of what they're supposed to be doing.

—Male new consumer,¹
early 30s

Positive first experiences, on the other hand, can inspire confidence in a company and facilitate additional experimentation. In the context of an encounter between two people, this might mean following up a conversation with a phone call or scheduling a second meeting. For a consumer and a business, it means the consumer returns to the company for more business or integrates the relationship into daily life, for example, by communicating with the business or making purchases there regularly. For example, one woman described how her first experience online helped quell her fears about online shopping in general:

I think just trying it and finding that it worked and that it was convenient, and that the quality was what I expected. ...Finding that you did not have to see it to get what you want, and being able to return something probably just gave me the confidence to keep doing it.

—Retired female new consumer,
early 60s

To convince the consumer to come back, companies must get the first encounter right, in whatever form it takes—bricks and mortar, direct mail, telemarketing, online requests, and so on.

¹ "New consumers" can be defined as having at least two of the following characteristics: information sophistication (at least one year of college education), discretionary income (in North America, annual household income greater than \$50,000), and access to information technology (owning a PC in the home).

Get the Value Exchange Right

In the early stages of a relationship, the two parties test the waters, perhaps by sharing information to determine whether the relationship is worth pursuing. In much the same way, businesses seeking to establish a relationship with consumers rely on exchanging information—both transactional and personal—to understand the customers’ needs and preferences and to let consumers know what the business has to offer. Using this information effectively increases the value of their offerings to customers and helps businesses keep the relationships going.

We’ve found consumers are much more likely to provide information if they receive something of value in exchange. Psychologists call this give and take “the norm of reciprocity” or in layman’s language, “You scratch my back, I’ll scratch yours.” Consumers who receive valuable services, information, products, or experiences from a business are much more likely to share personal information.

In IFTF surveys, we asked consumers what kinds of benefits they received from stand-out companies they enjoy doing business with—companies with which they have established good relationships. Not surprisingly, selection, service, and price ranked high among most consumers surveyed in the North Atlantic countries (see Table 1–1). These three offerings are the core components of the basic value exchange between businesses and consumers, and represent the fundamental expectations consumers have of businesses. If companies can deliver good selection, service, and price consistently, consumers are likely to be loyal (at least until something better comes along).

*Table 1–1
The Basic Business-Consumer Value Exchange:
Selection, Service, and Price
(Share of adults who strongly agree with the statement indicating
why they enjoy doing business with a company)*

	<i>Percent</i>	
	<i>North America</i>	<i>Northern Europe</i>
They have the brands I like	69	56
I always receive good customer service	60	55
I always get a good deal whenever I do business there	49	40

Source: Institute for the Future, International Household Survey, 2000.

The Institute for the Future’s International Household Survey 2000 was conducted with a representative cross-section of 6,613 households throughout the North Atlantic region. The surveys were weighted by population to create the regional categories. Data for North America includes Canada and the United States. Northern Europe includes France, Germany, the Netherlands, Sweden, and the United Kingdom.

Old ways of doing business—knowing the person who handles your business or getting special treatment in a store where you are a good customer—are no longer major reasons consumers choose businesses.

What surprised us, however, is that value-added “relationship” benefits such as targeted promotions and personalized service—where businesses know something about the customer and respond accordingly—were not among the top reasons consumers enjoyed doing business with a company (see Table 1–2).

Do consumers fail to rate these benefits highly because they don’t want them, or because they don’t get them? We’ve found that consumers don’t consider these of the highest importance for a simple reason—many businesses don’t even offer such services. Many consumers aren’t given the option of having just one person handle all their business; especially important in services that by definition, imply a long-term relationship. One man in our focus groups commented that having a different agent every time he dealt with his insurance company made establishing a good relationship very difficult.

You have an agent there [with a major car insurance company], but they keep on switching [personnel] every year. When you try to talk to someone you know, it’s always someone else who handles your case. So there’s no relationship at all.

—*Divorced male new consumer, 35 years old*

This comment and the data from the previous table reinforce the notion that old ways of doing business—knowing the person who handles your business or getting special treatment in a store where you are a good customer—are no longer major reasons consumers choose businesses. But clearly, the numbers also suggest there is a desire for such “old-fashioned” service. This service deficit represents an important opportunity for consumer-oriented in-

*Table 1–2
 Today’s Consumers Don’t Expect Relationship Benefits
 (Share of adults who strongly agree with the statement indicating why they enjoy doing business with a company)*

	Percent	
	North America	Northern Europe
They know what I like, and keep me posted of deals I might be interested in	37	35
They have one employee who knows me and handles all my business	21	33
They give me special discounts and benefits not available to other consumers	23	23

Source: Institute for the Future, International Household Survey, 2000.

dustries to differentiate their services from those of competitors. As companies learn to utilize new relationship management technologies in appropriate ways, they can improve offerings and increase the value of these relationship benefits.

Real-Time Interaction Reinforces the Relationship

Once the value of a relationship is established, the two parties begin to explore the relationship at greater depth. For two people, this might mean exploring the areas in which they are compatible or engaging in activities they both enjoy. For consumers, this means giving their business to companies that carry special products they need, or provide a high level of service, or offer products/services through channels the customer prefers (e.g., convenient store location, catalog, online, etc.) These compatible relationships are built on a foundation of real-time contacts, in which the customer interacts directly with the company.

These interactions are the means by which a company can build and maintain good customer relationships. As mentioned earlier, when consumers call to mind their relationships, it is usually the personal, highly interactive ones that stand out—that help consumers grow comfortable with a company. One man described how he evaluated different brokers on objective characteristics of their products, such as pricing structures and level of service. But when it came to making a decision, he chose the broker he “enjoyed talking with.”

The first thing was just asking about the pricing structures and the second part was actually talking to a place that provided that kind of service. ...Then I talked to different brokers who sold it and found one that I actually enjoyed talking with, who had a decent sense of humor. I chose him because I was able to create a personal relationship with him.

—Married male new consumer,
29 years old

Communication between consumers and businesses is the thread that ties the relationship. Even in situations where a company may not be able to meet particular needs of a customer, real-time interaction can prevent possible disputes by allowing the business to tell the customer what’s happening and letting the customer respond, to reach a resolution. We found many consumers who thought a simple follow-up phone call to confirm their order or inform them of changes in the order’s status was a critical component of a good relationship.

... normally, [the grocery delivery company] will call me when out of stock and they will tell me then if the grapes didn’t look good or whatever, “Do you want to substitute something else?” Or they didn’t have this size or this particular brand. ...I know that if I don’t want it, they’ll take it back.

—Married female new consumer
with young children, 35 years old

Communication between consumers and businesses is the thread that ties the relationship. Even in situations where a company may not be able to meet particular needs of a customer, real-time interaction can prevent possible disputes.

When companies ask for information that doesn't appear to be relevant to the inquiry or purchase being made, consumers are likely to bristle—to interpret the request as invasive and disrespectful.

Real-time interaction with a live person and the ability to choose how to communicate ranks high with consumers. Sixty percent of North American consumers and over half of Northern European consumers value being able to interact with a real person when they want to. Consumers also want to communicate with a company by the method they prefer (see Table 1–3). As the number of communication channels proliferates—store, phone, mail, web, or e-mail, among others—people want to be able to communicate on their own terms, by the method they prefer, when and where they want.

Use Information Appropriately to Build the Relationship

Another important component for building a relationship with a customer is the information exchange itself. Although an overwhelming majority of consumers in the North Atlantic countries are concerned about threats to their privacy, most are willing to share information if they receive something of value in return. (For more on consumer attitudes about information privacy, see the

IFTF Communication Strategies report *Managing Privacy in the Age of Interactivity*.) However, just as in relationships among friends, there are certain kinds of information that are off limits in business-to-consumer relationships—that are not to be discussed. One consumer commented that he is willing to share almost anything about himself—as long as it isn't too personal.

...the virtual world is just a cornucopia of stuff. ...You might as well take advantage of it all. ... So any [information] that I can give them to help me, as long as I don't find it too personal I guess, I don't mind at all.

—Single male new consumer,
 41 years old

“As long as I don't find it too personal” is a big exception, however. When companies ask for information that doesn't appear to be relevant to the inquiry or purchase being made, consumers are likely to bristle—to interpret the request as invasive and disre-

*Table 1–3
 Real-Time Interactions and Easy Communication Are Important Benefits
 (Share of adults who strongly agree with the statement indicating why they enjoy doing business with a company)*

	Percent	
	North America	Northern Europe
I can easily reach a person whenever I want to	60	51
I can easily communicate with the company through whatever method I prefer	55	46

Source: Institute for the Future, International Household Survey, 2000.

spectful. One man commented on his frustration while shopping online when a company would not let him complete his order without giving his home phone number.

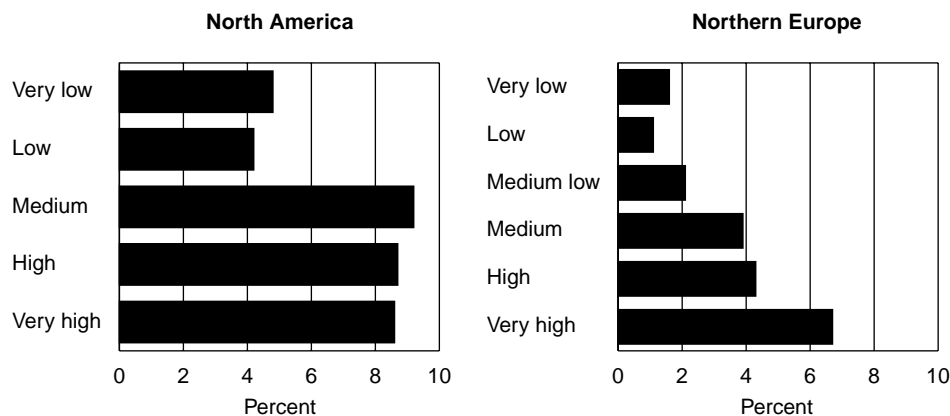
I was ordering a book today, in fact. And I have no qualms about giving my work phone number, but I skipped the blank where they wanted my home phone number. And it (the order form) flips to the next screen and it says, "Oh, you've left out your home phone number." And I said, "No kidding." Well, you can't buy the book unless you give them your home phone number.

—Married male new consumer with older children, 55 years old

Such information requests do more damage than companies realize. Companies that insist on collecting information a consumer isn't willing to share are encouraging suspicious consumers to falsify information. Since a database is only as good as the information that goes into it, this is counterproductive. In fact, survey data indicate that a small number of consumers are submitting false information to Web sites to protect their privacy. Using education as our proxy, the sophisticated—and thus more valuable—consumers are more than twice as likely to give false information (see Figure 1–1). These are customers that companies can't afford to alienate.

This difference is even more exaggerated for people who access the Internet almost every day. About 14% of frequent online users in North America and 11% in

Figure 1–1
Sophisticated Consumers More Likely to Falsify Information
(Share of group, by education, which submitted false information to Web sites in the past 12 months)



Source: Institute for the Future, International Household Survey, 2000.

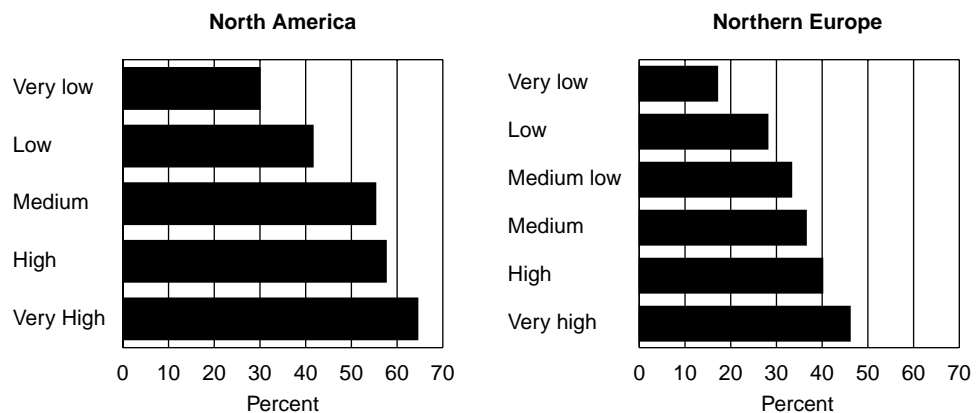
Northern Europe admit to giving false information. As more people move online and deal with frequent requests for information, we expect to see more of these strategies emerge. When consumers falsify data to protect their information, companies find it more difficult to communicate effectively with their customers.

Collecting high-quality customer information is the key to establishing a base of shared knowledge and understanding. Knowing a consumer's particular interests helps companies provide product or service information that is relevant and targeted to the customer's needs. Psychological studies show that people best remember material targeted to their specific interests. Targeting is essential for a good relationship, not only because relevant material captures the attention of consumers, but also because

consumers remember it better—key to getting them to think of the company when planning a purchase. Sophisticated new consumers are the most likely to share information in order to receive regular updates about products or services that might interest them (see Figure 1–2).

Many consumers we surveyed expressed satisfaction with receiving targeted information, and found it useful in making purchasing decisions. For example, they found recommendations from companies like CD Now or Amazon to be very helpful. However, others complained that they were quickly overwhelmed with messages after providing information to a company about topics that interested them. For many, potentially useful information was lost in the sheer volume of messages received.

Figure 1–2
Sophisticated Consumers Want to Receive Targeted Information
 (Share of group, by education, which assented to receive regular updates in the past 12 months)



Source: Institute for the Future, International Household Survey, 2000.

I did [a profile] and I thought, “This will be a great resource,” and I checked the box “you can send me information.” I got so many e-mails that week, that now I don’t open them. I delete them right away. They were interesting, but I never had the time to really look at them and read everything. And so I end up just deleting them. I think if I was getting them infrequently, then I’d be more inclined to spend the time and read it and look at it. But when you’re getting three a week or whatever it is, I just say, forget it.

—Married female new consumer, 31 years old

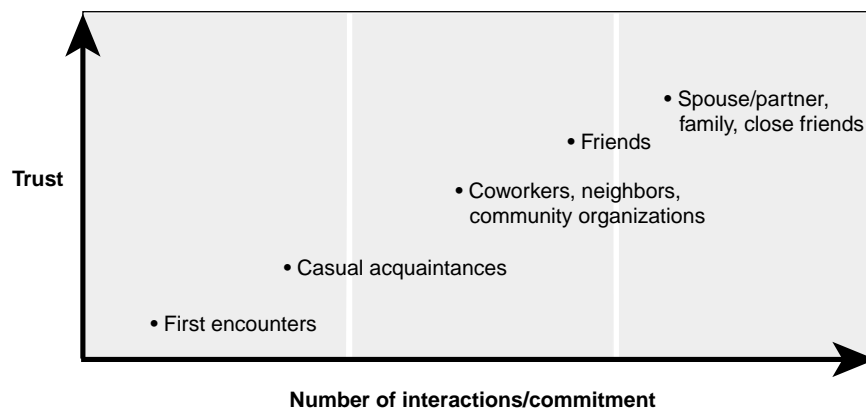
Such a response strongly indicates it is important for businesses to use consumers’ information appropriately. Offerings must

be targeted, relevant, and useful to the customer. This means companies should find out how consumers prefer to receive information and how often they need it. If a customer is overwhelmed by too many messages, no matter how relevant the information may be, the value of the communication will not be realized. Ineffective communications with customers weaken the thread that holds the relationship together.

Trust Is the Cornerstone of a Lasting Relationship

Trust is a critical component of what people consider a “good” relationship. According to psychologist Bernard Murstein, trust increases as people move toward greater commitment in the relationship. At the most committed stage of a relationship, trust is defined by how well each individual fulfills his or her role. (see Figure 1–3). For example, a man might consider a good friend

Figure 1–3
Relationship Stages



Source: Institute for the Future

to be someone who stands by him in difficult situations. If that friend fails to stand by him, he has not met the relationship's expectations and, in most cases, will no longer enjoy the same level of friendship.

One might argue that in the business-to-consumer relationship, the bond of trust is more tenuous than in other relationships. There are myriad factors that can sustain a relationship between two people, such as common interests, family ties, shared values, physical attraction, and love. But for modern consumers, trust in companies is based primarily on their performance according to the three basic expectations outlined earlier—high-quality goods, a high level of service, and reasonable prices. Put simply, if a company violates the trust by failing to meet these expectations, consumers won't return—the relationship is over. Consumers in our study repeatedly cited

trust as a necessary element in their relationships with a business. One woman described how poor service from even one clerk can break the delicate bond:

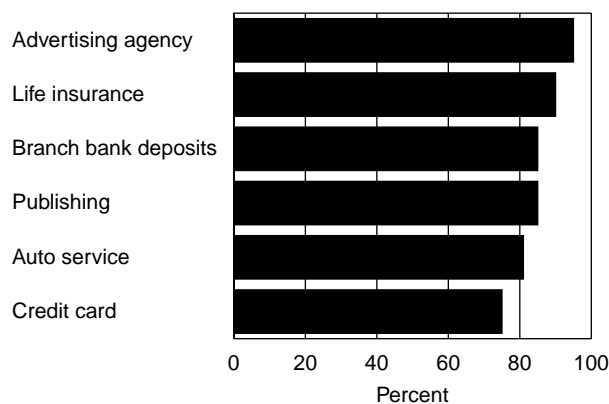
... a clerk has no right, under any circumstance, to have a bad day in front of a customer. ... Because when a clerk offends a customer, that customer in most cases will not come back. Our economy is based upon trust and we must trust each other very much to be pleasant no matter what the cost.

—Divorced female new consumer
with young children,
26 years old

The Benefits of Building Trusted Relationships

For companies that manage the trust factor well, and successfully build and maintain ongoing relationships with their customers, the benefits are increased loyalty and customer retention—which translate into higher margins. In his book, *The Loyalty Effect*, Frederick Reichheld argues that incremental increases in customer retention can have significant impacts on a company's margins. He asserts that a company, if it retains an additional 5% of its customers each year, can dramatically increase the total profits generated over the life of a typical customer relationship. For example, Reichheld estimates that life insurance providers can increase by 90% the total lifetime profits from a customer, just by increasing customer retention a mere 5% (see Figure 1–4). This holds true

Figure 1–4
*Impact of a 5% Increase in Retention Rate on Customer
Net Present Value*
(Percentage increase in customer net present value, by industry)



Source: Frederick Reichheld, *The Loyalty Effect*, Boston, Massachusetts, Harvard Business School Press, 1996.

for other industries as well, not just service providers. In his book, Reichheld highlights the success of product brands such as Lexus (autos) and John Deere (tractors), which achieved repurchase rates as high as 63% and 77% in the 1990s respectively by targeting their most loyal customer segments.

This argument is further supported by evidence that once investments are made in a relationship, ending it becomes increasingly difficult. In fact, one of the most formidable barriers to break-ups is shared resources. For couples, this means shared assets like homes, investments, and cars. For a business and its customers, this means information. If customers invest the time to share information and build a trusted relationship with a company, they are much less likely to start all over again by switching to another. Indeed, some people are willing to pay more to have a high level of service that guarantees them ease and convenience.

I mean I am probably paying a heck of a lot more than I would ever need to but, having the service when I need it and have them take care of me 150%, whatever I am paying extra is worth it to me than having to go through any other changes that I feel I don't have the time to deal with.

—Married female new consumer with young children, 34 years old

Other consumers trust that even when there are competitive offers available, a company that values the relationship will meet them on their terms—which is preferred to taking their business elsewhere and starting all over with another company simply for a better price.

I have called a couple of other companies and it might have been like \$20 cheaper ... [one company] offered a bigger deduction ... but they wanted you to transfer everything to them. So then I went back to my insurance agent, and he actually negotiated down. So it was the same thing.

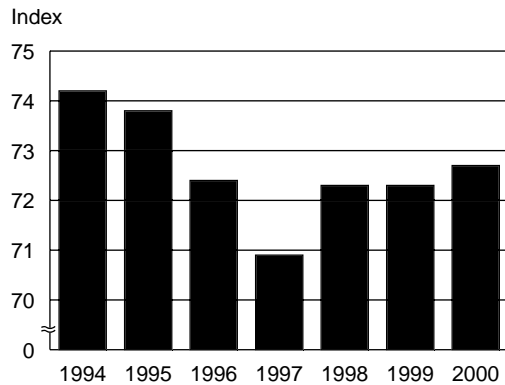
—Married female new consumer, under 35 years old

The Customer Service Crisis: Bridging the Trust Gap

Winning a consumer's trust is essential, since to make inroads in the New Economy, businesses are raising the bar of consumer expectations and to gain a competitive edge, must increasingly rely on the quality of information customers are willing to provide. If companies can't earn that trust and loyalty, consumers won't share personal information. If businesses don't get that personal information, they've lost an important tool for differentiating their offerings, adding value, and ultimately, retaining good customers.

If customers invest the time to share information and build a trusted relationship with a company, they are much less likely to start all over again by switching to another.

Figure 1–5
 Customer Satisfaction Is Slow to Recover



Source: University of Michigan, American Customer Satisfaction Index.

Table 1–4
 Decreasing Customer Satisfaction Across Many
 Consumer-Oriented Industries

	1994	2000	Percent Change
Airlines	72	63	-12.5
Banks	74	68	-8.1
Stores	77	72	-6.5
Hotels	75	72	-4.0
Personal computers	78	74	-5.1

Source: University of Michigan, American Customer Satisfaction Index, Industry Scores, 1994–2000.

Although consumer trust, loyalty, and satisfaction are key components of the business-to-consumer relationship, indicators show major gaps between consumer expectations and how well businesses are delivering these qualities. One measure of declining loyalty and trust among consumers is the American Customer Satisfaction Index. The University of Michigan has been tracking perceptions of the quality of customer service in 34 U.S. industries, with surveys of up to 50,000 consumers per year. Researchers ask consumers about their expectations, perceptions of quality and value, satisfaction, and loyalty to compute an overall customer satisfaction index. That index showed a fairly substantial decline between 1994 and 1997 and then some modest recovery between 1998 and 2000 (see Figure 1–5). The index remains well beneath its 1994 level, however.

Even more distressing, though, is that the industries with the largest decreases in customer satisfaction from 1994 to 2000 include many of the most consumer-focused, such as banks, retail stores, airlines, and hotels (see Table 1–4). Despite industry efforts to improve the level of customer satisfaction, such as offering more choices of shopping locations, wider ranges of product choices, new online venues, and stable prices for most products, consumer satisfaction remains low. This points to a significant gap between consumers' expectations of high-quality customer service and companies' ability to deliver.

This overall frustration with the level of customer service is prompting consumers to shop around and take their business elsewhere, making the prospect of building

long-term relationships ever more challenging for businesses. Moreover, the failure of companies to deliver the expected high level of service can diminish the value of their other offerings. One woman described how poor customer service eroded her trust in a company, despite the convenience of their service:

[The grocery delivery person would] just show up with the wrong stuff. Every time I would order, they would bring me half the stuff. I'm on the 4th floor—I don't have a car—and a 25-pound bag of dog food is heavy. I really like the idea of having food delivered. But I won't go back. I don't trust that they'll do it right.

—Married female new consumer, 28 years old

AN EVOLVING SPECTRUM OF RELATIONSHIP OPPORTUNITIES

Boiled down to its essence, a relationship is a mutual exchange of benefits. People choose their relationships—both personal and commercial—as they might a long-term investment—to maximize returns and minimize losses. Under these terms, a relationship isn't necessarily entered into once and for all. People continually assess the status of a relationship by measuring their returns and losses, comparing them with alternatives, and evaluating the potential upside and downside of ending the relationship.

The traditional relationship between businesses and consumers rests on the exchange of money for goods and services. While this monetary exchange is still at the heart of commercial relationships, the nature of today's business—consumer value exchange is growing far more complex. On one hand, fragmenting communication channels, any-time-anyplace sales and transactions, and a vast number of choices in the marketplace are making it more difficult than ever for businesses to communicate effectively with consumers. On the other hand, sophisticated consumers expect a much higher quality of goods and services adapted to their individual needs.

In the New Economy, with its innumerable possibilities for business and consumer exchanges, the simple exchange of money for goods and services is no longer enough to maintain consumer loyalty and to keep the relationship going. Increasingly, businesses need information from their customers to effectively sell them products and services, to differentiate themselves from competitors, and to provide added value. Customers need information from businesses to make the best purchases and to manage their households more efficiently. The more information the two parties exchange on an ongoing basis, the more opportunity they have to deepen their relationship—to make it last.

Many businesses are trying to establish long-term customer relationships as a means of improving performance and increasing profitability. However, such relationships are not forged in a vacuum. Businesses must

People continually assess the status of a relationship by measuring their returns and losses, comparing them with alternatives, and evaluating the potential upside and downside of ending the relationship.

understand their position within the network of relationships—both commercial and social—their customers maintain with a wide range of other businesses, organizations, and individuals. This network is a tangle of interdependent relationships at different stages along a spectrum, ranging from informal encounters to long-term associations, all of which fulfill particular needs.

The Five Stages of Business-to-Consumer Relationships

To help businesses understand how to build and maintain relationships with their customers, we have identified five stages of business-to-consumer interactions (see Table 1–5). At each stage, businesses and

consumers have the opportunity to deepen the relationship by investing more of themselves—giving out more information in return for better goods and services—thereby increasing the value exchange and moving up the scale.

We will discuss these stages and the appropriate communication strategies for different kinds of relationships in more depth in Chapter 3. But first we will explore how consumers are using different channels to communicate with businesses. Understanding the complex patterns of consumer communication will provide valuable insights into the evolution of a new kind of interactive business-to-consumer relationship.

Table 1–5
The Five Stages of Business–Consumer Relationships

Type of Relationship	Interaction	Relationship Value
<p>Brand relationships Examples: Bank of America Coca-Cola Levi's Procter & Gamble</p>	<p>Contact based on mass advertising, broadcast media, brand-awareness campaigns, and so on.</p>	<p>A simple exchange of money for goods and services, with no promise of continuation. For example, buying soda or toothpaste.</p>
<p>Profile–based relationships Examples: Bass Hotels & Resorts (Holiday Inn) MBNA America Bank (credit cards)</p>	<p>Profile developed based on demographic information collected from or provided by the customer (e.g., address or income).</p>	<p>Exchange of money for goods and services that match needs associated with customer demographic profiles. For example, a credit card company sending marketing materials only to households above a certain income.</p>
<p>Value-based relationships Examples: Coolsavings.com Respond.com</p>	<p>Targeted and relevant information provided in response to individual customer data (e.g., transaction data, store visits, or response to advertisements) or personal information provided by the customer (e.g., preferences or likes and dislikes).</p>	<p>Exchange of information for improved customer value derived from relevant information received when and where needed. For example, grocery delivery services reminding a client to buy margarine because he's about to run out.</p>
<p>Customized relationships Examples: American Airlines Dell Computer Yahoo! Reflect.com</p>	<p>Targeted and customized products and services tailored to individual needs and specifications provided by the customer (i.e., mass customization).</p>	<p>Exchange of information for increased customer value derived from goods and services tailored to individual needs. For example, customizing a computer by selecting from a range of options.</p>
<p>Comprehensive relationships Examples: American Express Concierge services</p>	<p>High level of personalized service that responds to individual consumer needs across multiple purchase categories, providing a range of product choices tailored to individual needs.</p>	<p>Exchange of information for increased customer value derived from personalized service that can fulfill individual needs across multiple categories of purchases. For example, a personal assistance service that reminds you it's your spouse's birthday, then researches and buys the perfect present and makes reservations at the best restaurant in town.</p>

Source: Institute for the Future

KEY CONCLUSIONS AND IMPLICATIONS

- The quality of a company's first encounter with a consumer, in whatever form it takes—advertising, bricks and mortar, direct mail, telemarketing, online requests, and so on—determines whether a customer will come back.
- Consumers don't value relationship benefits because businesses don't offer them. There is a tremendous opportunity for consumer-oriented industries to differentiate their services from competitors by using new relationship management technologies appropriately. In this way, they can improve offerings and increase the value of relationship benefits to consumers.
- Compatible relationships are built on a foundation of real-time contacts, in which the customer interacts directly with the company. This kind of personal interaction allows customers to grow comfortable with a company and is the means by which the company can build and maintain good business-consumer relationships.
- Collecting high-quality customer information is the key to establishing a base of shared knowledge and understanding. Companies that insist on collecting information a consumer is reluctant to share may encourage suspicious consumers to falsify information. When consumers develop such strategies to protect their privacy, companies will find it difficult to communicate effectively with their customers in the long run.
- It is important for businesses to appropriately use information collected about the customer. Offerings must be targeted, relevant, and useful to the customer. This means companies should find out how consumers prefer to receive information and how often they need it.
- Winning a consumer's trust is essential, since to make inroads in the New Economy, businesses are raising the bar of consumer expectations. To gain a competitive edge in this market, businesses must increasingly rely on the quality of information customers are willing to give them.

Consumer Communication Strategies: Sophisticated and Unique

Despite their declining levels of satisfaction and increasing frustration over the quality and value of products and services in the marketplace, today's consumers are initiating and receiving more communications with businesses than ever before. And they are doing so by incorporating new modes of communication into their daily activities. To make the most of these new infrastructures, consumers are using an increasingly sophisticated mix of technologies and channels, and in the process, creating unique communication patterns.

BUSINESS-TO-CONSUMER COMMUNICATIONS ARE HIGH

In general, the volume of business-to-consumer communications is high. In particular, consumers with higher levels of education and income are more likely to have a large number and range of contacts with businesses across many channels.

Our surveys show that as their level of education rises, consumers are much more likely to use new technologies, such as the Internet and mobile phones, that allow more interactive contacts with businesses throughout the day and night (see Figure 2-1 on page 18). In fact, people with higher levels of education have between two and seven times as many contacts with businesses in three key interactive channels (see Figure 2-2 on page

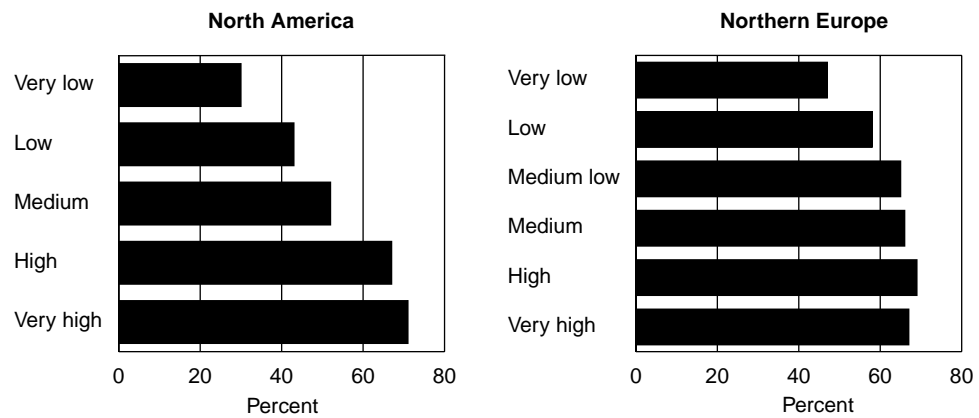
19) as less educated consumers. Each of the channels involves a remote interaction away from retail stores or agency offices; they include phone calls, e-mail, and Web sites.

More Consumers Go Across Channels for Information

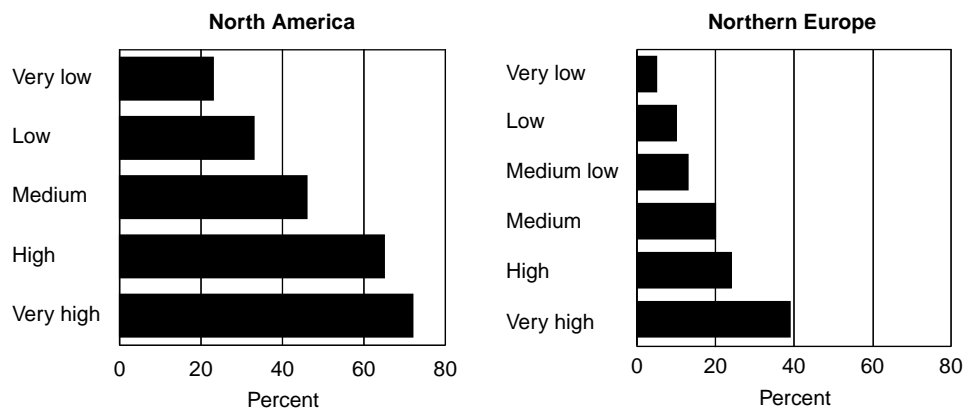
More importantly, consumers are using combinations of channels to communicate with businesses and get information before they make their purchases. In our surveys, we asked consumers to tell us what channels they used for information gathering during their last purchase of a household item or financial service. As possibilities, we included mailed advertisements, newspaper or magazine ads and articles, catalogs, store visits, talks with sales representatives, talks with friends or

Figure 2-1
Technology Use Rises with Education
(Share of each group that . . . by educational attainment)

Has a mobile phone



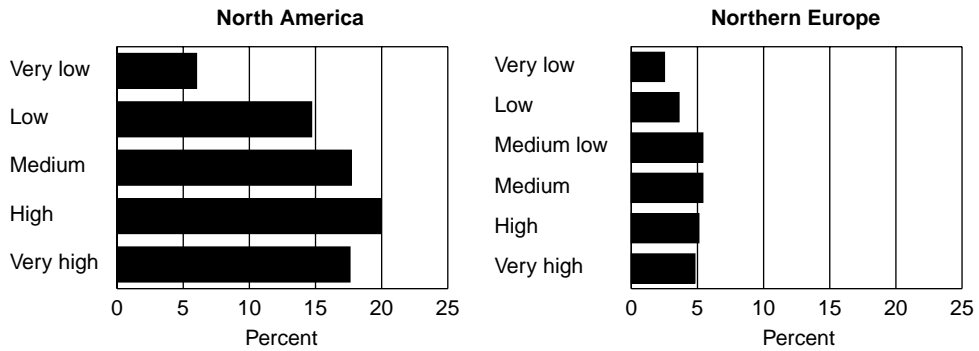
Connects to Internet almost every day



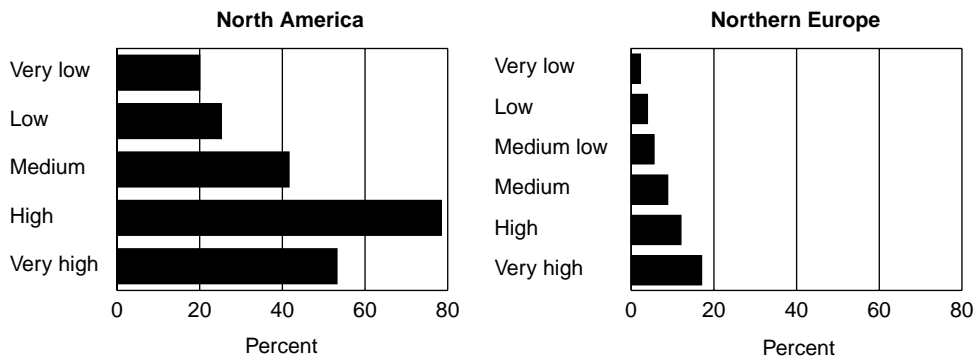
Source: Institute for the Future, International Household Survey, 2000.

Figure 2–2
Channel Communications Grow with Education
 (Number of household contacts per month with businesses via three remote channels—
 phone, e-mail, Web sites)

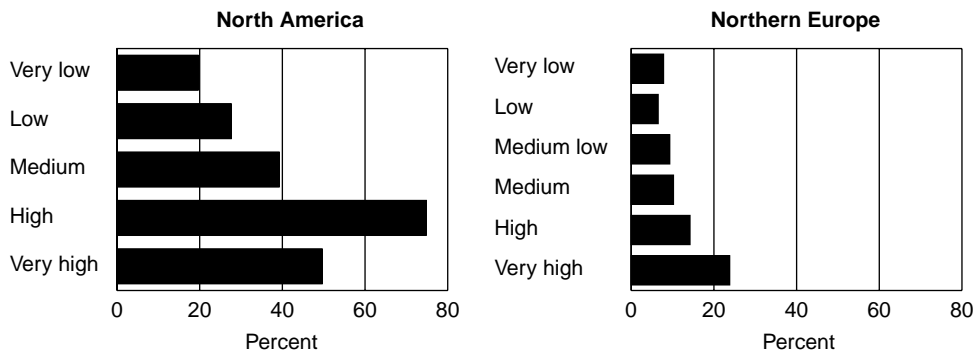
Mean number of telephone calls received



Mean number of e-mails received

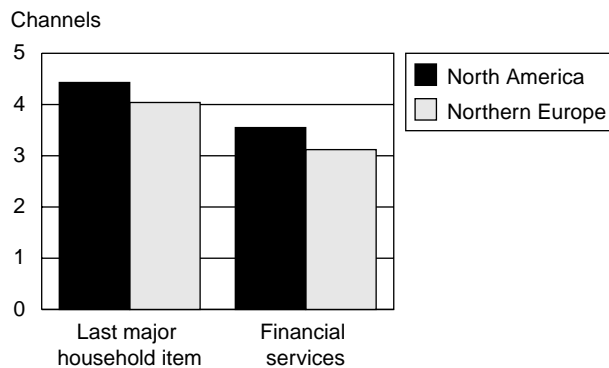


Mean number of Web sites visited



Source: Institute for the Future, International Household Survey, 2000.

Figure 2–3
Growth in Channel Use by All Consumers
(Mean number of channels* used before making purchase of...)



*Note: Channels include mail ads, newspaper or magazine ads and articles, store visits, talks with sales representatives, friends or family, direct requests for information from the manufacturer, TV programs, and Web sites. Catalog use was excluded from this analysis in order to create a list of 2000 channels comparable to 1999 channels.

Source: Institute for the Future, International Household Survey, 2000.

Table 2–1
Face-to-Face Channels Most Popular for Browsing
(Percent of respondents who reported using channel to shop for a major household purchase or financial service)

Channel	North America	Northern Europe
Sales representatives	65	63
Bricks-and-mortar stores	64	72
Friends and family members	61	60
Consumer-requested information	50	41
Newspaper/magazine ads	49	41
TV programs/newspaper/ magazine articles	45	35
Mail advertisements	39	37
Catalogs	35	42
Web sites/online services	27	10

Source: Institute for the Future, International Household Survey, 2000.

family, direct requests for information from the manufacturer, TV programs, and Web sites. In both North America and Northern Europe, fewer than 9% of consumers reported using only one channel. The total number of different channels visited is high (see Figure 2–3). Channels that offer the possibility of face-to-face or real-time interactions, such as visits to bricks-and-mortar stores or talks with sales representatives, were used most widely (see Table 2–1).

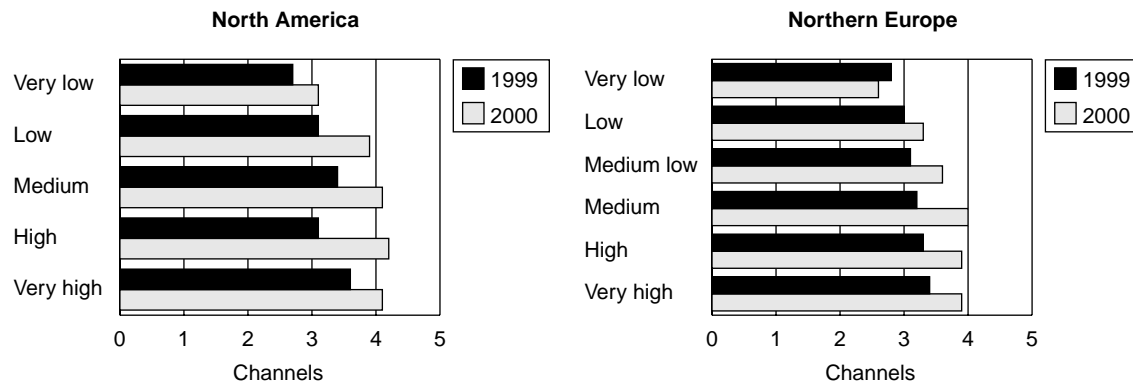
We also found that the number of channels used before a purchase varies by demographic characteristics. Survey data from the last two years show consistently that people with higher levels of education—those we’ve come to call “new consumers”—use between 20% and 30% more channels in both North America and Northern Europe (see Figure 2–4). Furthermore, the number of channels consumers use is increasing over time; consumers with higher levels of education report using up to 15% more channels in 2000 than in 1999.

In fact, most people go to several different sources when making a purchasing decision, a trend that holds true for both browsing and the actual purchase.

Browsing and Shopping

Our surveys show that many people used several different combinations of channels when they sought information for their last purchase. Mail and catalogs are commonly used in combination with other channels, for example (see Table 2–2). Web sites are visited less frequently, due no doubt to current online access rates. However, these findings suggest that a sizeable percentage of shoppers who access information through

Figure 2-4
Those with More Education Use More Channels
(Average number of channels used before a financial purchasing decision by level of education)



Source: Institute for the Future, International Household Survey, 2000.

Table 2-2
Cross-Channel Use Is High in the Information-Seeking Phase
(Percent of users of one channel who used another for most recent purchase)

	North America	Northern Europe
<i>Percentage of Web site users:</i>		
Who also use sales representatives	72	71
Who also use catalogs	51	61
Who also use mail ads	51	51
<i>Percentage of sales rep users:</i>		
Who also use mail	50	42
Who also use catalogs	43	48
Who also visit Web sites	28	12
<i>Percentage of store visitors:</i>		
Who also use mail	47	43
Who also use catalogs	44	49
Who also visit Web sites	25	11

Source: Institute for the Future, International Household Survey, 2000.

Sales data by channel do not reflect the true impact of each channel on the final purchase.

one channel also will have seen a company's offerings in another channel.

Purchasing

Cross-channel use is high not only for browsing and shopping but also for buying. A large number of people shop in more than one buying channel before they purchase. (see Table 2-3). In particular, a large share of Web purchasers and store purchasers report consulting other buying channels, such as mail ads and catalogs, before making their buying decision. In most cases, Web purchasers are even more likely to use other channels than are store purchasers,

demonstrating that the Web is supplementing rather than replacing other channels in the shopping process.

To sum up, our surveys point to the emergence of a very sophisticated model of shopping. When they are browsing, consumers use many different sources to search for information. While these sources fall into several distinct types, almost all shoppers use more than one channel. They make their purchases the same way. Many consumers browse or shop in one channel and then buy in another. As a result—and this is what's significant—sales data by channel do not reflect the true impact of each channel on the final purchase.

*Table 2-3
 Consumers Browse Through One Medium and Buy in Another
 (Percentage of consumers who purchased through one type of shopping channel after browsing other channels)*

	<i>North America</i>	<i>Northern Europe</i>
<i>Share of store purchasers who:</i>		
Browsed with newspaper/magazine advertisements	54	45
Browsed with TV programs, newspaper/magazine articles	47	38
Browsed with mail ads	43	40
Browsed in catalogs	42	45
Browsed with Web sites	21	10
<i>Share of Web purchasers who:</i>		
Browsed with TV programs, newspaper/magazine articles	65	47
Browsed with sales reps	61	39
Browsed with newspaper/magazine advertisements	56	51
Browsed with mail ads	55	47
Browsed in catalogs	52	38

Source: Institute for the Future, International Household Survey, 2000.

IMMEDIATE AND SELF-INITIATED INFORMATION IS MOST USEFUL

If consumers are using more channels in their shopping, does that mean that all channels are equally useful? The answer is, No. Our survey data indicate that consumers consider immediate and self-initiated data the most useful. To understand which shopping channels consumers value most, we examined the preferences of consumers who used three or more channels for browsing. We define these as heavy channel users; they make up almost 75% of our sample.

In most cases, respondents saw the channels that enabled an immediate exchange of information as the most useful (see Table 2–4). Heavy channel users, especially, valued

most the traditional channels (e.g., stores and sales representatives) and new interactive channels (e.g., the Web) that enabled immediate information exchanges.

Although the general population reported requests for information to be the least useful, this channel is actually quite important for sophisticated consumers. Information gathered by the more educated consumers—by requests to companies or on company Web sites, for example—is two to three times more likely to be what they consider most useful to their final decision (see Figure 2–5 on page 24). On the whole, sophisticated consumers tend to be more interested in targeted and interactive information.

*Table 2–4
Heavy Channel Users See Interactive Channels as Most Useful
(Percentage of consumers using a shopping channel who found that channel to be one of two most useful, based on consumers who reported using three or more channels)*

<i>Channel</i>	<i>North America</i>	<i>Northern Europe</i>
Web	55	46
Sales representatives	47	54
Friends and family	42	28
Bricks-and-mortar stores	40	33
Newspaper/magazine ads	33	21
TV programs/newspaper/magazine articles	30	24
Mail ads	21	21
Catalogs	19	20
Requested information	15	16

Source: Institute for the Future, International Household Survey, 2000.

CHANNEL PREFERENCES ARE UNIQUE

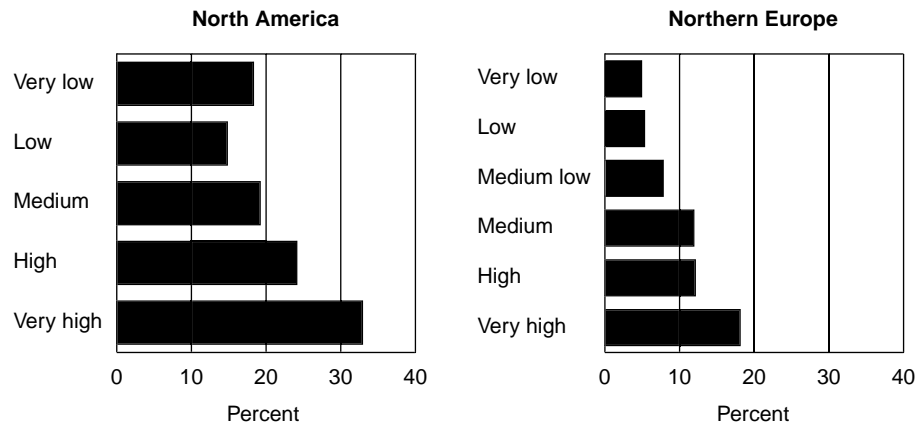
Even as more sophisticated consumers turn to the more interactive forms of communication enabled by emerging technologies, other consumers continue to rely on more traditional forms of business-to-consumer communication. In fact, IFTF surveys have identified four clear patterns of channel use among consumers.

- *Web users.* All consumers who consult the Internet regularly are defined as Web users. These consumers might use the Web in addition to or instead of other channels; they also are the most likely to report purchasing products online.
- *Print users.* These consumers rely very heavily on newspaper/magazine ads and articles, catalogs, and ad mail. They are the

most likely of all the groups to report that print channels are their most useful shopping channels. They are low in their use of face-to-face channels, and this group excludes Web users altogether.

- *Face-to-facers.* Face-to-facers use family and friends, visits to stores, and talks with sales people and agents as their main sources of shopping information. They also tend to perceive these channels as the most useful in their shopping. They are low in their use of print channels, and this group excludes Web users.
- *Traditionalists.* These consumers tend to use print and face-to-face sources equally, although they show some preference for face-to-face channels. This group also excludes Web users.

Figure 2–5
 Sophisticated Consumers Like Data for Which They Initiate the Search
 (Share of consumers—by education—who say information they found on Web sites or requested from companies was most useful in making major purchases)



Source: Institute for the Future, International Household Survey, 2000.

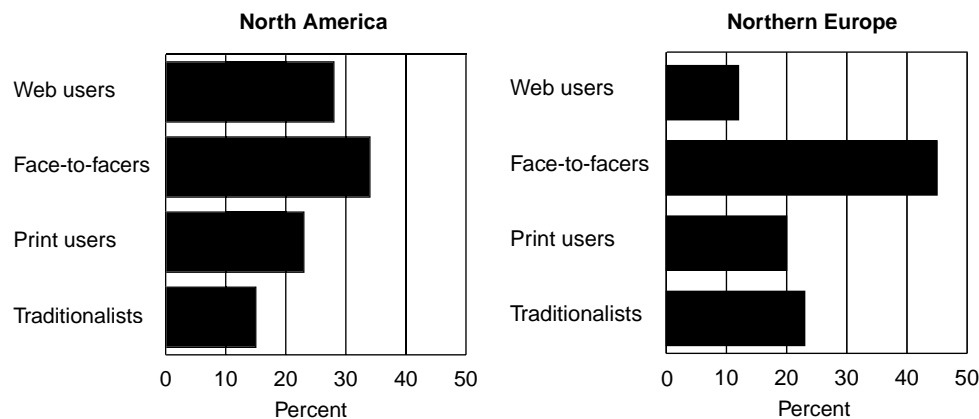
The patterns of use are varied and complex. In general, we find that North America and Northern Europe share a roughly similar distribution of these groups of channel users, although North America has a much larger share of Web users than Northern Europe (see Figure 2–6). Moreover, it is not a surprise that the members of these groups report that the channel by which they are defined is the one they find most useful for shopping. For example, approximately half of all print users (54% in North America and 49% in Northern Europe) find print-based channels the most useful.

Although consumers clearly have preferences for particular types of channels—print, face-to-face, Web, or both print and face-to-face—they still use various channels in their shopping (see Table 2–5 on

page 26). For example, most heavy users of print also have used face-to-face channels in their most recent purchase. Only face-to-facers tend to rely on a single channel.

Although channel usage and preferences are to some extent driven by individuals’ likes and dislikes, they also reflect demographics and so should change dynamically over the next decade. For example, the well-educated consumers we call “new consumers” make up a disproportionate share of the Web user group, and are less likely to be traditionalists (see Figure 2–7 on page 26). Expect Web users to make up an increasingly larger share of the population as more individuals adopt and utilize computers and Web technologies. However, individual preferences will ensure that all of these groups remain large enough to be important media targets.

*Figure 2–6
Patterns of Channel Use
(Share of all adults, by channel preference)*



Note: 6% of North Americans and 9% of Northern Europeans reported not using any channels in their shopping, and are not included in the above percentages.

Source: Institute for the Future, International Household Survey, 2000.

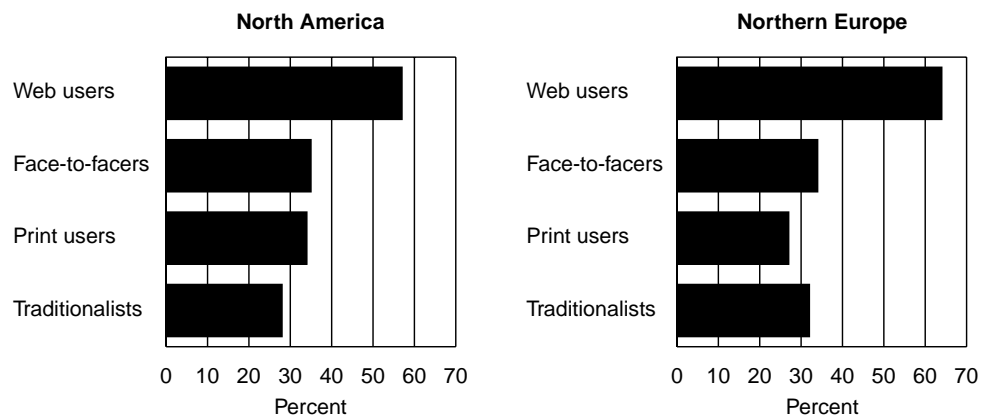
Table 2-5
Patterns of Heavy Channel Use
(Percentage of . . .)

	<i>North America</i>	<i>North Europe</i>
Print users		
Who also use face-to-face	86	82
Face-to-facers		
Who also use print	42	45
Web users		
Who also use print	88	91
Who also use face-to-face	98	98

Note: Print and face-to-face groups are defined to exclude all respondents who used the Web for shopping.

Source: Institute for the Future, International Household Survey, 2000.

Figure 2-7
“New Consumers” Are Tech Users
(Share of each channel user group that consists of new consumers)



Source: Institute for the Future; International Household Survey, 2000.

KEY CONCLUSIONS AND IMPLICATIONS

- Consumers want more information and they will search for it in a greater variety of channels. Channels that support some face-to-face exchange, such as talking to sales representatives or visiting stores, are currently the most popular.
- Consumers—especially “new consumers”—understand the value of immediate, self-initiated, and interactive information and show an interest in getting more of it.
- Consumers use multiple channels for browsing and buying, and may cross channels when moving from browsing to purchasing. Thus, sales data by channel may not reflect the true impact of the channel upon the purchasing process.
- Channel preferences are also individual; people may vary in their preference for information in digital, print, or more face-to-face formats.

Moving Up the Relationship Scale: The Right Media Mix

In Chapter 1, we developed a framework for understanding business-to-consumer relationships based on psychologist Bernard Murstein’s model of the progressive stages of personal interactions. We identified five stages for understanding business-to-consumer relationships as they moved up the trust and commitment scale:

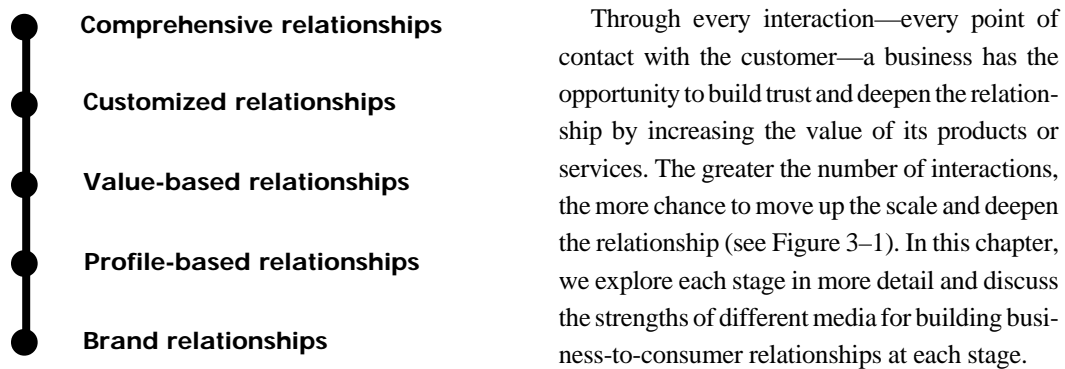
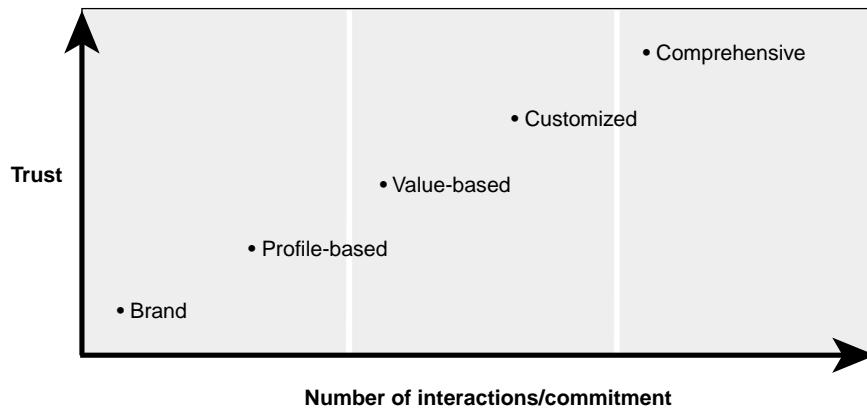
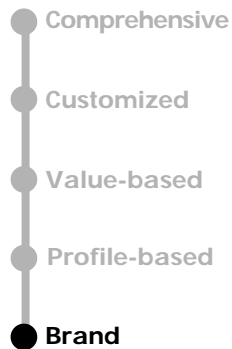


Figure 3–1
Spectrum of Business-to-Consumer Relationships



Source: Institute for the Future



REINFORCING BRANDS RELATIONSHIPS WITH THE MASS CUSTOMER

Just as in the realm of personal relationships, where first impressions determine whether a relationship gets past the first “hello,” the first impression businesses make on consumers is likely to determine whether or not they will become paying customers. Advertising, promotions, brand-awareness messages, and so forth shape consumers’ first perceptions about a company, product, or service.

Many companies find there is a long way between making that first contact with a consumer, even if it is favorable, and retaining them as loyal customers. Consumer product firms such as Coca-Cola and Procter & Gamble, and clothing manufacturers such as Levi’s, have written the book on building brand loyalty in the mass market. They succeed by continually reinforcing their brand relationship with the consumer; by

making themselves the most attractive product at the point of purchase. In order to accomplish this goal, companies are leveraging the reach of mass media, sending messages through multiple channels, and providing consumers easy access to their products and services.

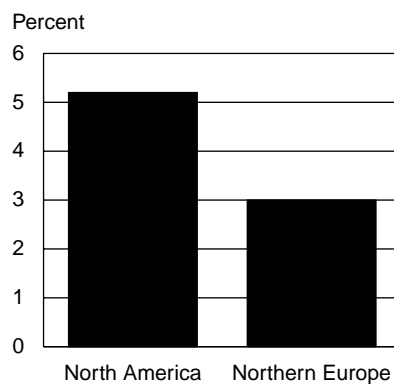
Use Mass Media to Create and Reinforce the Brand Relationship

Companies with a simple message about their branded products try to reach as large an audience as possible through mass media such as TV, radio, and magazines. Local stores or service firms use the same tactics at the regional level. They advertise in newspapers, on radio, and through the mail to saturate local neighborhoods with news of product availability and sales.

Despite a growing number of new advertising channels such as the Internet, mass marketing is still the core strategy for most brand-driven companies. In fact, in the last six years, advertising expenditures in the United States have grown well above the overall GDP growth rate, while in Northern Europe, they have grown just above the rate (see Figure 3–2). In the United States alone, ad spending came to nearly \$225 billion in 2000, equal to about half the ad spending in the rest of the world.

Building *brand relationships* depends on a company’s ability to create and reinforce a positive impression on consumers. Mass media, including television, radio, print, sponsorships and events, mail, promotions, and the Internet, are key channels for delivering push messages to the consumer—to ensure that the company’s message is out there to be heard (see Table 3–1).

Figure 3–2
 Total Ad Spending Grows

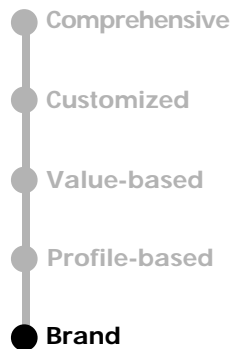


Source: Institute for the Future; derived from Advertising Age and McAnn Erickson.

Table 3–1
Mass Media Advertising Reinforces Brand Relationships

Mass Media	Definition
Television	<ul style="list-style-type: none"> • Broadcast television programs with more than 2% share of audience, or audience in a major area (e.g., advertising on ABC, NBC, CBS, or FOX national news programs or major metro news programs). • National cable television programming with more than 2% share (e.g., CNN).
Print	<ul style="list-style-type: none"> • National newspapers with circulation over 500,000 (e.g., <i>New York Times</i>, <i>Wall Street Journal</i>, <i>International Herald Tribune</i>). • Large metro papers with circulation over 50,000 (e.g., <i>Los Angeles Times</i>, <i>San Francisco Chronicle</i>). • National or international magazines with over one million subscribers (e.g., <i>Newsweek</i>, <i>Time</i>). • Billboards along major thoroughfares, in major metro areas Yellow Pages sent to all homes.
Radio	<ul style="list-style-type: none"> • National radio station programming with more than 2% share (e.g., ABC news spots on local ABC-owned stations).
Sponsorship & Events	<ul style="list-style-type: none"> • Sponsorships of national/international events or buildings (e.g., the Olympics, the U.S. Open golf tournament, sports arenas such as San Francisco's PacBell Park).
Mail	<ul style="list-style-type: none"> • Unaddressed mass mailings to a broad consumer base.
Promotions	<ul style="list-style-type: none"> • Mass mailings of new product promotions to all households (e.g., free samples of a new shampoo).
Internet	<ul style="list-style-type: none"> • Ads posted on large portal sites and ISP networks.

Source: Institute for the Future



The good news is that there are more opportunities than ever before to reach consumers with a brand message in a variety of ways. The bad news is that the market is inundated with so many companies, so many products and services, that creating a message that stands out is more challenging than ever.

Use Multiple Channels to Break Through the White Noise

When it comes to brand building, there is no “silver bullet” medium. As many dotcoms have discovered, huge investments in television advertising reap little benefit in a crowded market. In 2000, for example, seventeen dotcom companies purchased high-priced ad spots during the Super Bowl broadcast. In 2001, only two remained in the lineup.

Sophisticated marketers are finding innovative ways to use different media to generate brand awareness. As consumers adopt new media into their ever-growing tool kit of communication channels, multi-channel approaches will become more important for reinforcing *brand relationships*.

Take for instance, Procter & Gamble (P&G), one of the world’s largest spenders on mass media, especially TV. When deciding how to introduce a new hair product (Physique) that appealed to young women, P&G needed to reach a group that didn’t watch much TV. The company chose a mix of direct mail, including tailored announcements and free samples, staged events and displays at night clubs, and Internet and e-mail advertising. This was a distinct shift from the usual, predominantly TV, advertising strategy.

Be There for the Customer

Other companies are taking advantage of opportunities to reach more customers by locating their products outside traditional retail environments. Product manufacturers such as Coca-Cola go where their customers are, so in addition to grocery stores and restaurants, Coca-Cola positions vending machines anywhere someone might get thirsty—train stations, amusement parks or parking garages. Similarly, consumer banks such as Bank of America are placing ATMs in more accessible locations, such as grocery stores, malls, and restaurants. For many consumers, deciding what company to do business with depends on where the business is. In focus groups, many consumers indicated that the availability of a service affected their decision to go with a particular company. In the case of banks, for example, many consumers opted for those with the most ATMs.

I just wanted one that had a lot of ATMs everywhere so I didn’t have to look far and didn’t have to pay fees to everyone else. I figured it was probably between B of A and Wells Fargo.

—Divorced female new consumer, 32 years old

With this approach, companies reinforce the *brand relationship* by literally being there for the consumer—attracting the customer at the place and time they’re most likely to need the service or product.

BUILDING PROFILE-BASED RELATIONSHIPS

Once companies' brands are known in the mass market, they can take the next step in finding good customers—identifying those who, by lifestyle or demographic characteristics, are predisposed to their services or products; that is, creating a customer profile. To achieve such profile-based relationships, companies must come to a better understanding of *who* the customer is, based on easily attained information such as demographic or transaction data. The point is to use this information for building a profile of the customer that enables the company to present better-targeted offerings and earn the customer's loyalty.

As many companies are finding out, attracting customers to look at their offerings is not the same as earning their loyalty. Increasingly, companies that have spent decades trying to reach a broad audience with a single message about their brands are shifting their ad strategy to reach customer segments in better-targeted ways, in a variety of settings. Some of the largest branded product companies are moving away from spending on traditional mass advertising.

Unilever, a major branded grocery product maker, cut TV ad expenditures by 24% while increasing its spending on other, more segmented media. Likewise, in the last five years, branded grocery sellers' shares of TV ad spending in the United Kingdom fell from 27% of their advertising costs to 21%. As one advertising manager put it, "We can't wait for customers to come to our ads, we need to go out and find them."

Their strategy is to shift an increasing portion of advertising money to less expensive, better-targeted communications. This has led to a greater focus on more segmented media, such as in-store marketing, outdoor marketing, entertainment, and targeted mailings (see Table 3–2 on page 34). By means of these segmented media, companies are able to establish deeper relationships based on their customers' profiles.

Companies can build customer profiles to segment their markets in a number of ways.

Leverage Database Technology to Reach More Focused Customer Segments

In the last two decades, major shifts in marketing techniques and media channels have been very effective in reaching smaller and better-focused customer segments. Large databases of demographic data, surveys, and electoral and credit card information, plus Internet tracking technologies allow companies to track an individual consumer's transactions and behaviors. This lets the companies identify groups of like-minded consumers who might be interested in a particular offer. The proliferation of cable TV channels and specialty magazines, and more effective use of mailing lists, also have enhanced the opportunity to reach well-defined groups of customers with more-relevant messages. Members of such groups share important characteristics—they may live in upscale neighborhoods, read the same women's magazines, regularly watch sports on TV, use a certain type of credit card, or stay in a particular hotel. Effective ads are developed to appeal to these common char-

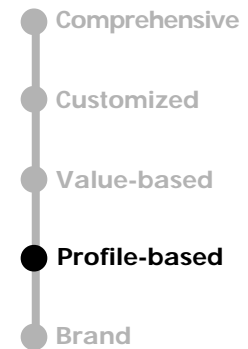


Table 3–2
 Segmented Media Reinforce Profile-Based Relationships

Segmented Media	Definition
Television	<ul style="list-style-type: none"> • Local network and cable television programming with less than 2% market share. • Television programs targeted to specific segments (e.g., <i>Dark Angel</i> and <i>Buffy the Vampire Slayer</i> for the teen market).
Print	<ul style="list-style-type: none"> • Local newspapers with circulation under 50,000 (e.g., <i>San Mateo Times</i>, <i>Toledo Star</i>). • Specialty magazines (e.g., <i>Bon Appetit</i>, <i>Sports Illustrated</i>, <i>Architectural Digest</i>, <i>Road & Track</i>). • Billboards in sports arenas or at concerts.
Radio	<ul style="list-style-type: none"> • Local radio programming with less than 2% share.
Sponsorship & Events	<ul style="list-style-type: none"> • Sponsorships of local events (e.g., art and wine festivals, concert tours, fund-raising for local schools). • Sponsoring local sports teams (e.g., Nike sponsorship of the Chicago Bulls).
Direct mail	<ul style="list-style-type: none"> • Direct mail offerings to given sociodemographic groups (e.g., targeting upper-income residents by sending offerings to all residents in a certain zip code) or retailer loyalty programs (mailings to all Safeway or Kroger club members). • Catalogs (e.g., Victoria's Secret, Fingerhut).
Promotions	<ul style="list-style-type: none"> • Free sample or promotional displays (e.g., Coke or baseball caps given away at sporting events, or food samples given away on the grocery store aisles).
Telemarketing	<ul style="list-style-type: none"> • Campaigns in which the telemarketer focuses on a closely followed script that is the same for all households in a given area.
Internet	<ul style="list-style-type: none"> • General banner ads on sites attracting certain consumer segments, such as ESPN.

Source: Institute for the Future

acteristics. By building detailed customer profiles, companies can target product and service offerings more effectively to particular customer segments.

For example, with good customer profiles, companies can create better-focused catalogs, with fewer pages illustrating a narrower range of products. This gives consumers a deeper set of choices based on their past purchases. The databases can go as far as tracking the time of year purchases are made (flowers for a special birthday, bulbs in the springtime, children's presents at Christmas), and can process and generate unique catalog pages that appeal to consumers' individual interests. Response rates are much higher from these targeted catalogs. Instead of traditional rates of 1% to 2% for large, general-interest catalogs, these specialty versions can stimulate 5% to 8% returns. By sending them frequently, firms can readily identify which customers are high responders.

Europe is going through the same transformation: the need for targeting is especially relevant where languages, culture, and style are so radically different from country to country. Targeted marketing offers an opportunity to introduce new ideas—and more competitive prices—across borders. For example, one large French catalog retailer, Redoute, has seen a dramatic change in the composition of its customer base. A few years ago, 70% of its sales came from within France, while today 60% of sales come from outside, largely from the United Kingdom, Germany, and the United States, as it broadened its reach with mailings in foreign markets. Opening narrowly defined markets to foreign catalogs broad-

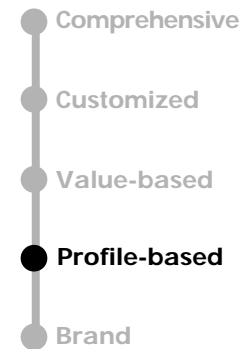
ens the consumer's range of choices, increasing competition in selection, style, and price. In the past two years, companies in the United Kingdom alone have launched 500 new specialized catalogs.

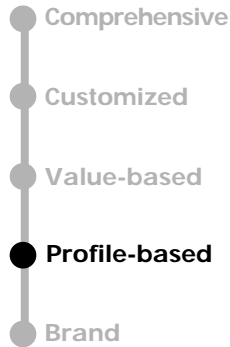
Be Part of the Neighborhood Community

Participating in the local community can help develop *profile-based relationships* by deepening contacts with individual customers. A local presence can be achieved by building local stores, participating in local events, advertising through local radio stations or via direct mail, or encouraging coverage by local media sources. Broadcast campaigns through local media can be a very effective way to build brand awareness for new products and services in a particular market. For example, recent consumer research demonstrates that local media are a major influence in inspiring consumers to try new products or activities, most notably online sites and providers. Consumers trust local area news shows and newspapers to bring them facts and provide useful information. These offline information sources play an especially important role in persuading consumers to experiment with new players online.

"The TV station, Channel 5. I don't know if anybody watches it. But every morning before I go to work, they'll give you different Web sites to try out. They're really good about that."

—Divorced female new consumer, 40 years old





As more people use the Internet, these traditional information sources are becoming trusted guides that lead consumers through uncharted territory. One consumer described a weekly insert in her local paper called *Access*, which she trusts for referrals to new Web sites.

Every Sunday now—because it's become so popular, it used to be once a month—in the Herald, they have a pull-out called *Access*. ... I thought it was excellent. ... They mention a lot of the Web sites.

—Married female new consumer, 36 years old

Other consumers heard about new online providers through stories in newspapers and magazines even before the services became available. One man indicated that after reading a report in a local newspaper, he went online to find out if he could access the provider's services in his area.

I saw writeups in the paper before they ever delivered to my area. I kind of checked every once in awhile to see until they were delivering in my area, and then I went for it.

—Married male new consumer, 44 years old

Provide Incentives to More-Qualified Leads

Customer profiles can be powerful tools for reaching the customers most likely to be interested in an offer. Enticing new customers with attractive discounts and promotions, for example, does not create loyalty in and of itself, as many online companies have learned, to their regret. In focus groups with online shoppers, many consumers reported that they were willing to try a new online service because of an attractive promotional offer, but most did not return to make another purchase unless similar discounts were offered again. In one of our focus groups, a consumer indicated that he was unlikely to buy vitamins online unless there was a huge financial incentive, since he had no real need for the product.

The only reason I bought the stuff—it was free! Twenty-five dollars off your first purchase and \$20 off your other purchase. I wouldn't have bought it if it wasn't free. [Will you go back to them?] If they give me something for free, sure. [Would you go back and pay for the vitamins?] Their prices were pretty good. But I didn't even need them.

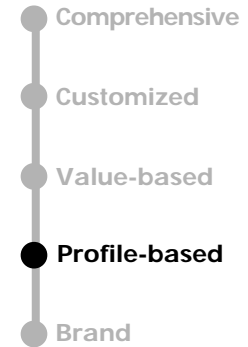
—Single male new consumer, early 30s

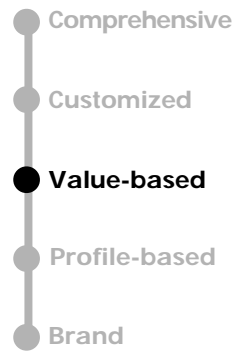
Thus, if a company's objective is to build loyal relationships, investing money in attracting just *any* customer with a discount or promotion can prove costly. A better approach is to go after a smaller group of targeted, qualified people who will find real value in the company's product or service. A recent study conducted by The Boston Consulting Group found that customer acquisition costs dropped dramatically as online retailers shifted their focus to better-targeted marketing, rather than more expensive mass marketing campaigns.

Indeed, many companies are beginning to realize they can reduce advertising costs

and improve response rates significantly by targeting the right customers. Bass Hotels & Resorts (owners of international chains such as Holiday Inn and Inter-Continental Hotels) collects detailed information about response rates to its promotions. By sending promotional deals to only those consumers who have responded in the past, the company has reduced its mailing costs by 50% and increased response rates by 20%.

These *profile-based relationships* take advantage of information about consumers to attract the customers who will find the most value in the company's products and services.





ESTABLISHING VALUE-BASED RELATIONSHIPS

Brand awareness and profile-based relationships are essentially one-way streets. To establish brand awareness, the company gets its message into the marketplace to the best of its ability and hopes consumers receive it. With profile-based relationships, companies segment their customers into groups based on the limited information they can gather without the consumers' participation. In some ways, these aren't true relationships at all. True relationships require a two-way street.

To build that two-way street—to take the next step in developing mutual trust and loyalty—businesses and consumers must establish a foundation of shared values. In other words, they must form a *value-based relationship*. In personal relationships, individuals seek out other people, groups, and communities with similar interests and values, such as sports, hobbies, or fine arts, people of the same racial, ethnic or cultural background, or those who live in the same neighborhood or work for the same employer.

This is the critical “getting to know you” stage, where interactions revolve around information exchanges that allow people to understand what the other wants out of the relationship—what are his or her values, needs, preferences, and so on. For businesses to reach this point in their customer relationships, they must engage customers and persuade them to enter an interactive exchange of information. For example, one consumer in our focus groups commented that for a home grocery delivery service to be really valuable, it needed to spend time

getting to know her. In turn, the grocery service provider would gain access to valuable information about her needs, her schedule, and product preferences.

I think I would like [the grocery delivery service] to give me a trial offer, you know, before I had to commit to anything—so that they would know my schedule ... that I don't get home until 7:00 and I leave the house at 8:00. I'd have to get used to it. I would want it on a trial basis without anybody getting pissy because you didn't do this or you didn't do that—maybe 30 days.... And then you could work out the kinks in it, and then you could both have a good relationship. You could get what you need, when you needed it.

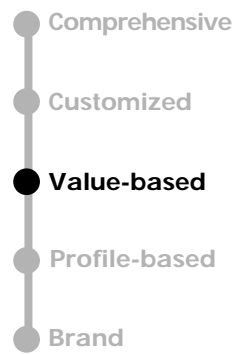
—Divorced female new consumer, 46 years old

At this stage, establishing the value exchange with an individual customer is paramount and requires businesses to shift toward highly targeted advertising media, as well as one-on-one customer service interactions. In addition to today's targeted advertising media, over the next decade new interactive technologies will provide more ways to communicate with individual consumers (see Table 3-3). This two-way dialogue between businesses and customers creates a dynamic flow of information that allows a company to provide truly targeted and relevant information to an individual consumer.

Table 3–3
Targeted Media Reinforce Value-Based Relationships

Targeted Media	Definition
Television	<ul style="list-style-type: none"> • Targeted television commercial spots (both broadcast and cable) to narrowly segmented interests. In the future, interactive television capabilities will allow companies to target individual households.
Print	<ul style="list-style-type: none"> • Magazine ads targeted to individual subscribers (the next phase of special ad inserts based on geographic region).
Radio	<ul style="list-style-type: none"> • Targeted radio commercial spots to narrowly segmented interests. Next-generation Webcast and streaming technologies will enable businesses to target individual drivers/listeners.
Direct Mail	<ul style="list-style-type: none"> • Direct mail offerings to individual addresses (e.g., coupon packet contents based on past purchasing patterns). • Customized catalogs (e.g., customizing offerings or covers based on individual past purchases or expressed interest). • Catalogs sent at particular times, tied to past purchasing events.
Promotions	<ul style="list-style-type: none"> • Free samples or targeted promotions based on past purchasing history in a given product area (e.g., free sample of new Starbucks' coffee flavor to all current Starbucks' customers, or discount by airline to loyal customers' most frequent destinations). • Loyalty advertisements/promotions for certain levels of customers.
Telemarketing	<ul style="list-style-type: none"> • Campaigns in which the telemarketer follows a script that is the same for all households targeted for a specific service, based on past purchases or expressed interest.
Internet	<ul style="list-style-type: none"> • Ad messages by e-mail, banners, or interstitials (ads superimposed on Web pages) on carefully selected pages, based on expressed interest, search patterns, or past purchases.
Wireless	<ul style="list-style-type: none"> • Targeted messages by cell phones, personal digital assistants, and other wireless devices based on past purchases, expressed interest, or current geographic location (e.g., cell phones or pager message while in a mall indicating a special sale price at Macy's).

Source: Institute for the Future



Most consumers maintain numerous *value-based relationships* with a variety of different businesses for different aspects of life (e.g., financial, professional, or familial). However, the depth and breadth of relationships can vary significantly at this stage and do not necessarily imply extended loyalty to any one person or provider. So it is very important for companies to get the value exchange right if they want to continue to progress up the scale.

Leverage Interactive Media to Understand Individual Consumer Preferences

Many companies are offering valuable benefits in exchange for a consumer's personal information, especially on the Internet. Companies like Coolsavings.com and Respond.com are leveraging the interactivity of the Internet to engage consumers in a dialogue about their preferences.

Coolsavings offers consumers valuable information and discounts based on a consumer's stated interests and needs. Whenever a consumer is interested in making a purchase, she can go to Coolsavings for a coupon or promotional information in exchange for information about her interests. Likewise, Respond provides a tailored shopping service to consumers willing to share their needs and preferences. In exchange, Respond provides a list of companies that offer the desired product. These companies are harnessing the interactive capabilities of the Internet to broker the exchange of information between business and consumers. These information brokers are filling a critical gap by providing increased value to consumers through targeted information, and

to businesses through more detailed information about customer needs.

Leverage Person-to-Person Interactions to Build Understanding

Person-to-person interactions represent important opportunities to build a deeper understanding of a customer's needs. It is essential to create feedback loops so employees can share information gathered through their personal interactions with customers. For example, at the Ritz-Carlton Hotels, all employees are encouraged to share information learned about a customer's preferences by putting them into a customer profile database that's used to anticipate a customer's needs when they next visit the hotel.

Similarly, these personal interactions are an important tool for maintaining consumers' interest and letting them know their business is important. Webvan, an online grocery delivery service, uses a "win back" call program as part of its marketing effort, to encourage customers to continue using the service. These personal calls are very effective in underscoring the value Webvan offers.

Centura Bank of Raleigh, North Carolina, makes personal calls to its most valuable customers several times a year to check in and make sure the customers' needs are being met. The CEO calls annually to wish these high-value customers a happy holiday. This personal approach allows a company to provide a high level of service while collecting important information about the customer. Attrition in this high-value group is down 50% since 1996, while the percentage of unprofitable customers has shrunken from 27% to 21%.

Use Targeted Information to Get the Customer’s Attention

Targeted information is extremely valuable to consumers. Using targeted communication methods increases the likelihood a message will penetrate the white noise of the marketplace. For example, consumers are likely to read mail they perceive to be relevant. A recent Pitney Bowes survey found that 57% of consumers surveyed said mail that is targeted to their tastes and interests would have “some impact” or a “very high impact” on their relationships with a business. Over a third (36%) said they continue to do business with specific companies because of targeted or “smart” mail.

Not surprisingly, response rates to mail from unfamiliar companies are low (see Table 3–4). This underscores the importance of targeted, relevant information and the ineffectiveness of superfluous information in reaching consumers.

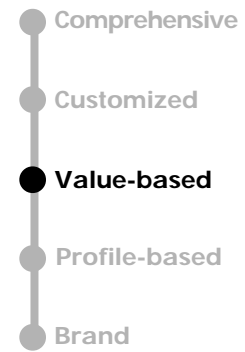
Leverage Multiple Channels to Enhance the In-Store Experience

Physical location is an increasingly valuable asset in the world of virtual communications. Sales associates are uniquely positioned to create a truly targeted and relevant experience for the consumer, by listening to and responding directly to a consumer’s specific needs. Moreover, providing Web-based information tools such as online kiosks in the store, or training sales associates on additional products and services available online can be powerful tools for delivering targeted and relevant information to consumers in an otherwise mostly anonymous experience. In recent focus groups, consumers said they appreciated

being able to talk to a sales agent who could accommodate their needs by pointing them to a more tailored selection available on a store’s Web site.

Well, I like [unique clothes] that I don’t see a lot of people wearing. So I go to the store and then they say, “Well, we don’t have it in the store, but you might find it online.” Then I’ve had a lot of success going online to find just what I wanted.

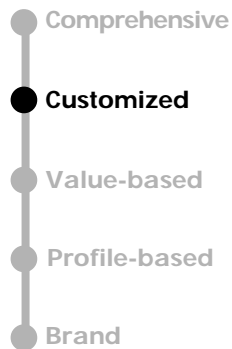
—Married male new consumer,
42 years old



*Table 3–4
Consumers Read and Respond to Mail Received
From Companies They Know
(Share of householders)*

	Percent
Read mail	
Previous customers	67
Familiar with organization	38
Organization not known	26
Respond to mail	
Previous customer	23
Familiar with organization	5
Organization not known	2

Source: USPS Household Survey 1998, Table 6–24



CUSTOMIZING RELATIONSHIPS FOR ENHANCED VALUE

Companies that can engage customers in an information exchange and utilize that information to respond with products and services tailored to their specifications will move even further up the relationship scale to the stage we call *customized relationships*. In the next decade, interactive media will let companies respond in real time to consumers' requests, allowing the businesses to provide customized offerings (see Table 3-5). Indeed, more ubiquitous networking technologies will emerge and enable consumers and businesses to share information seamlessly across myriad devices. These technologies will create even more opportunities to gather and respond to information about customers with customized service and product offerings (see text box, "Interactive Tools to Watch For.")

Already, many consumers are receiving customized information from a variety of news providers. Online portals customize information and news to the users' interests. Yahoo! does this through MyYahoo! Other news services such as CNN and the *Wall Street Journal* gather stories based on users' preferences and e-mail their subscribers targeted and relevant headlines every day.

Translate Information into Increased Value

Airline frequent-flier programs are another example showing how a company can build *customized relationships* by translating information *about* the customer into increased value *for* the customer. Tracking information about frequent fliers allows companies such as American Airlines and United to

accommodate the preferences of their most valuable customers by offering them preferred seating and meals, as well as priority for upgrades. Moreover, these companies are offering much more customized experiences to their high-value customers. Examples include tracking tall customers and providing them extra leg room, or noting whether a customer puts eye shades on to sleep in flight, and making sure they're available, if desired. Product manufacturers also are beginning to respond to the needs of individual consumers with customized products. For instance, Dell Computer Corp. allows customers to customize their PC configurations by choosing their own features, such as CD-ROM speed, modem type, and how much memory they want in the system. Similarly, Acumins Nutritional Supplements produces vitamins formulated for the specific health needs of individual consumers. A person who is anemic may require more iron in his vitamins, for example.

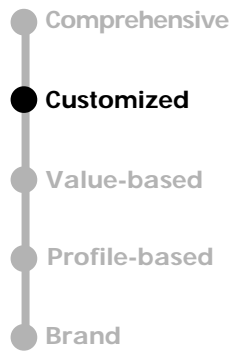
Customize Service and Products

Software is now available that allows companies to respond immediately to customer queries by means of an interactive Web site and call center. Store clerks can have immediate access to a full record of purchases and queries online as they interact in real time with the consumer. Taking advantage of these technologies, some large retailers are gearing up for immediate responses to their customers. For example, JC Penney has call centers that can process a thousand orders a minute. This combination of scale and information technology allows quick and truly customized responses for all customers.

Table 3–5
Interactive Media Reinforce Customized Relationships

Interactive Media	Definition
Television	<ul style="list-style-type: none"> • Two-way television programming and commercials, in both cable and broadcast media. In the next few years, interactive television technology will become widely available to consumers, allowing them to click on TV ads or products in programs to get more information or to order remotely.
Sponsorship & Events	<ul style="list-style-type: none"> • Booths at local events where two-way communication is possible with company representatives. • Corporate-organized events where interaction and product demonstration are possible (e.g., free concerts supported by a company with product samples and interaction available, such as a car company hosting a race and having the next year's model available for test drives).
Telemarketing	<ul style="list-style-type: none"> • Campaigns in which the telemarketer is knowledgeable about the products and services offered, and empowered to negotiate deals with consumers based on their needs.
Internet	<ul style="list-style-type: none"> • Ad messages that enable two-way communication with live sales agents or link to other advertising messages/information.
Wireless	<ul style="list-style-type: none"> • Targeted messages via cell phones, personal digital assistants, and other wireless devices with two-way capability.

Source: Institute for the Future



Such technologies also enable companies to offer immediate discounts or other rewards to individuals for products in which the potential customer has shown particular interest. These can be made at the transaction site in a store, at an online site, or through the mail.

Use Interactive Channels to Deliver Customized Information

When browsing for information, consumers seem to prefer shopping and communication channels that are personal and interactive. When asked where they got the most

useful information for making their most recent purchase of a major household item, for selecting an alternative item for everyday household use, or for choosing a financial service, householders in Europe and North America saw personal interactions with friends or family and sales representatives as the most useful information sources (see Table 3–6).

These interactive technologies are enabling the kinds of *customized relationships* that are beginning to establish that level of trust that is becoming all-important for success in the New Economy.

Table 3–6
Interactive Channels Are Most Useful Information Source
(Share of all adults who chose listed channel as one of two most useful)

	Percent	
	North America	Northern Europe
Friends or family	43	30
Sales representatives	31	54
Store displays	28	37
Newspaper or magazine ads	26	14
Newspaper or magazine articles	21	15
Internet/online sites	21	8
Catalogs	12	15
Mail advertisements	10	12
Requested information	8	10

Source: Institute for the Future, International Household Survey, 2000.



INTERACTIVE TOOLS TO WATCH FOR

In the next decade, consumers will integrate more and more interactive technologies into their daily lives. Here are some to watch for:

Agents

Increasingly, consumers will use agents to filter the reams of information and communications they are showered with daily. These might build upon today's "bots"—programs that manage particular tasks for consumers, like shopping. (MySimon.com uses shopping bots to gather and compare prices of online products, for example.)

One type of agent likely to appeal to consumers is a *role-focused agent*. Role-focused agents will help consumers manage the tasks and responsibilities associated with a defined role, such as parenting. For example, Babycenter.com, an early role-focused agent, e-mails parents weekly newsletters that describe how their child should be progressing and offer age-relevant products from the Babycenter online store.

Another important type of agent is a *domain-focused agent* that seeks to provide a range of information and guidance for an important life domain, such as health or finances. A precursor of domain-focused agents is WebMD, which

offers the latest health-related information, physician referrals, and secure medical record storage.

Agents such as these will be able to take on a deeper level of tasks, such as creating checklists and calendars, and ordering services. They can also serve as a moderator or filter for business-to-consumer communications, encouraging retail companies to work through the agent if they want to reach the best contact points and deepest levels of interaction with the consumer. However, to win consumers' trust, these agents must protect both customers' personal information and their best interests.

Peer-to-Peer Networking

As identified in our surveys, people trust information from other people—the communities they belong to—whether family or groups formed around shared interests, life-stage, ethnic culture, hobbies, or even geographic location. There are early indications that online communities also are becoming trusted gatekeepers of information. In an early example of

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this phenomenon, Amazon found that the purchasing patterns of other people provide useful information for online shoppers. Using NetPerceptions' GroupLens collaborative filtering technology, Amazon can make product recommendations to customers based on what other consumers with similar interests have enjoyed. More recently, applications like Napster have shown that online communities can become large enough to be perceived as important industry players, though the February ruling by the Federal courts seems to have suspended Napster-like activities for the time being.

Online communities that utilize peer-to-peer networks harness the power of the Internet as a community building tool, facilitating word-of-mouth transmission of information. Many of these online communities, such as Slashdot, Plastic.com, or The Vines Network, have sophisticated technologies and human editors who ensure the quality and integrity of their information. Some of these communities are quite large—for example, over 5.2 million users check out Slashdot every month. These communities represent an interesting channel for audiences focused on particular interests or behav-

iors. Thus, peer-to-peer networks have great possibility for disseminating targeted information to groups of people very receptive to that information.

Wireless Communications

Technologies such as Bluetooth allow seamless communication via wireless devices. This has tremendous implications for the “anytime, anyplace” communications preferred by new consumers. Being able to get in touch from a variety of locations frees consumers to make choices when they're most ready—on the spur of the moment, when a thought or idea hits them. Wireless communication in retail locations also allows more points of contact with consumers. For example, some consumers will likely find a few advertisements a small price to pay for an easier, more flexible connection in their neighborhood café. And because wireless communications can substitute for wired connections that are expensive and difficult to install, the growth of these connections could also support the growth of networks of wireless appliances—with each as a potential new stream of information exchange between businesses and consumers.

INVESTING IN COMPREHENSIVE RELATIONSHIPS TO MEET (AND EXCEED) EXPECTATIONS

To reach the top of the business-consumer relationship scale—the *comprehensive relationship* stage—both parties must continually fulfill the role expectations they’ve set up for each other. For the company, this means anticipating, meeting, and exceeding the customer’s needs and expectations. For the consumer, it means consistently returning to the company as a loyal customer. If either side fails to fulfill the expectations of the role, then the relationship slips back down the scale. If the company leaves the consumer in the lurch, for example, or the consumers go to other companies even after getting the highest level of service and best-quality products from the first company, then the relationship is damaged.

To meet the needs of a *comprehensive relationship*, companies must be accessible to the customer. This involves not only utilizing interactive technologies to maintain two-way communication; it also requires investment in providing a very human element—great service. Real-time interaction with live-service agents is an important part of developing the trust required to service a broad set of customer needs (see Table 3–7 on page 48).

Build Deep Knowledge Through Ongoing Interactions

At this ultimate stage of the business-consumer relationship, companies must leverage the deep knowledge of the consumer they built up through ongoing interactions. This information base allows companies to

respond to consumers with a high level of comprehensive personalized service to meet a diverse set of consumer needs—needs that transcend product and service categories.

Experiments in developing such *comprehensive relationship* models to serve this profitable and exclusive niche are launched frequently. Several companies are offering agent services, both electronic and human, that play the role of personal assistant. Essentially, these agents help time-starved consumers take care of errands and chores they can’t fit into their busy schedules. Many credit card companies such as American Express and First Union offer their most valuable customers a concierge service that can gather information or obtain any product from anywhere in the world. Other businesses such as Charles Schwab and 3Com are providing concierge services to some of their employees, in recognition of the increasingly delicate home/work balance today’s knowledge workers are struggling to maintain. Circles.com and VIPdesk, for example, can help with everything from household chores (cleaning, grocery shopping, dry-cleaning) to event planning (obtaining tickets to a concert or planning an anniversary dinner). Customers can submit requests via the telephone or the Web to their “concierge,” who will make all the necessary arrangements on the customer’s behalf.

Use Information to Expand Range of Offerings

For other companies, reaching the pinnacle of the relationship scale means leveraging valuable customer information about preferences and needs to expand the scope of their current services, thereby becoming an in-

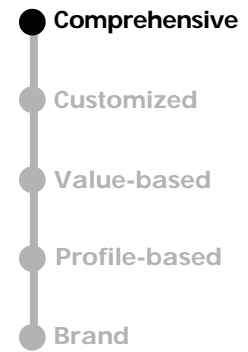


Table 3–7
Live Interaction to Support Comprehensive Relationships

Interactive Media	Definition
Television	<ul style="list-style-type: none"> • Two-way digital television will create opportunities to service customers through video streaming technology. • Video conferencing applications will come to the consumer market to enable remote face-to-face contact.
Telephone	<p>• Customer call centers will be increasingly important. Allowing customers to reach a live agent easily through telephone contact is essential in providing a high-level customer service. Today's automated service menus are a source of significant frustration for consumers. Providing access to service agents who can respond to requests and resolve issues immediately will be critical.</p>
Internet	<ul style="list-style-type: none"> • Two-way communication with live sales agents through live chats or video streaming will become an essential customer service option.
Wireless	<ul style="list-style-type: none"> • Anytime, anyplace access to customer service agents via cell phones, personal digital assistants, and other wireless devices will allow companies to provide service anywhere the customer may need or want it.

Source: Institute for the Future

valuable resource across categories. Companies such as Nordstrom are well positioned to build on their reputation for high-touch customer service and to provide an expanded array of product and service offerings to their loyal customers. In the future, Nordstrom's personal shoppers could provide diverse services other than shopping—travel and event planning, for instance.

Empower Customer Service Agents

One-to-one personal interaction is absolutely essential at the *comprehensive relationship* stage. In interviews, business experts repeatedly refer to the delivery of high-level customer service as the primary way to exceed customer expectations. For example, Webvan makes significant investments in training its delivery staff to leverage the one-to-one contact on consumers' doorsteps. Part of the strategy is to empower employees to use their best judgment in servicing customers' needs.

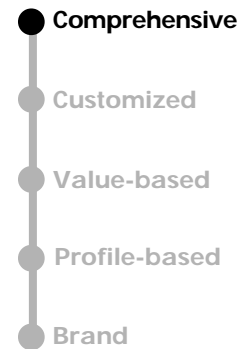
"Our couriers can overcome weaknesses in the supply chain, and we make sure that they have extensive training on dealing with that. They're armed with trinkets for kids and treats for dogs so when they make a delivery they can offer these when a situation arises that they'd like to do that sort of thing. One of our couriers delivered to a man who was bed-ridden after a hospital

stay, and he even put the groceries away for the man. We don't encourage that sort of thing, but on the same hand we do encourage letting them make the call."

—Webvan executive

Real Service Requires Investment

Building, maintaining, and deepening customer relationships—that is, moving up the relationship scale—requires substantial investment. A critical factor in moving up the scale is developing the right balance of cost-saving technology and high-value, high-cost personal service. Although the Internet has opened up many more options for providing consumers access to services at incredible cost savings, it has not completely eliminated the need for human interaction, especially for services. In an environment where technology-mediated communication proliferates, the human component of the business-consumer relationship is becoming increasingly rare as companies save money by reserving it for top-tier customers. Yet providing more personalized services at all levels is becoming increasingly important to companies concerned about customer loyalty and retention. Though creating this mix of service and technology is a big investment, it is necessary for companies to move into the 21st century marketplace (see text box, "Creating Customer Value in the 21st Century: The New Investment Broker").

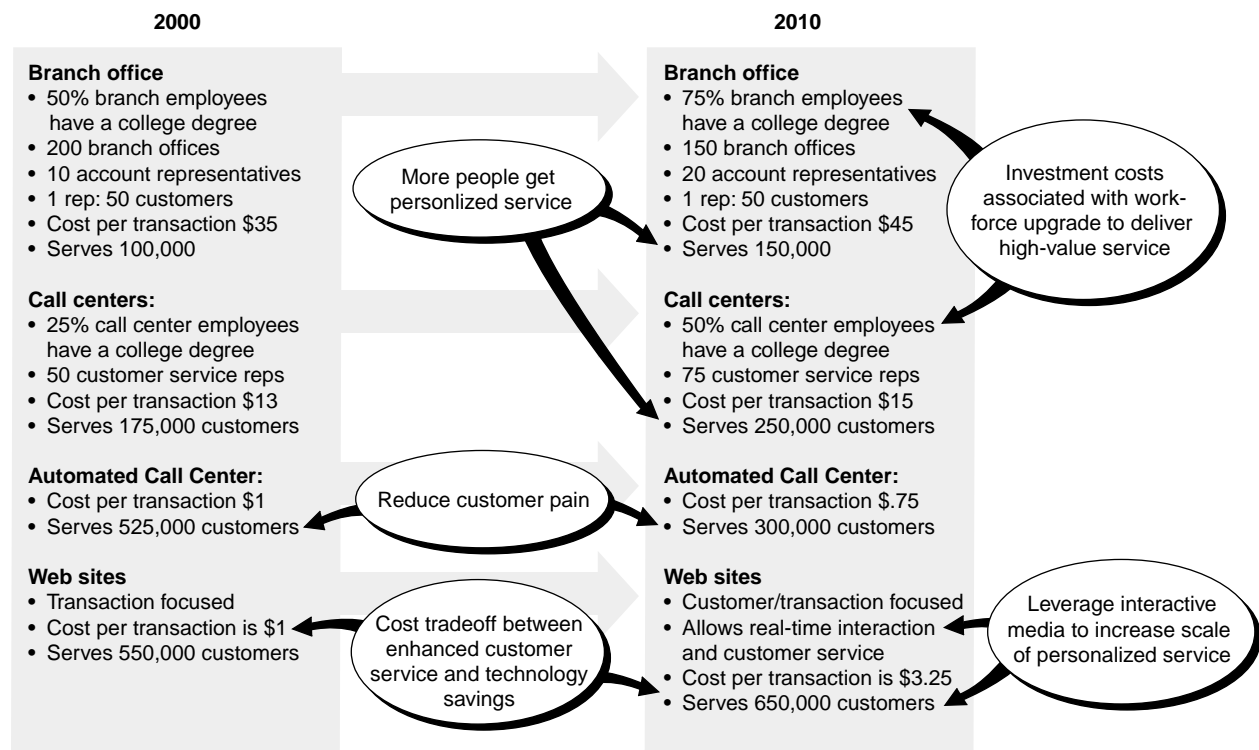


**CREATING CUSTOMER VALUE IN THE 21ST CENTURY:
 THE NEW INVESTMENT BROKER**

To illustrate the investment and trade-offs of implementing customer-focused relationship-building strategies, we forecast the transformation in an investment brokerage's service offerings. We identify necessary investments and trade-offs required to generate increased value for customers in 2010,

and thus increase customer retention (see Figure 3–3). This illustration highlights key investments in technology and human resources to support more personalized services for high-value customers and to support relationship-building activities with *potential* high-value customers.

Figure 3–3
 Real Service Requires Investment



Source: Institute for the Future

**LEVERAGE FULL RANGE OF
CHANNEL OPTIONS FOR EFFECTIVE
COMMUNICATIONS**

Though the new interactive channels are important at all stages of relationship building, they are not the end-all and be-all of communications for the next decade. In fact, they have some problems of their own. Internet advertising, in particular, has yet to live up to its promise. Advertisers are having trouble attracting people to their sites, at least in part because consumers have major concerns about privacy and losing control of information (for more on information privacy, see the report *Managing Privacy in the Age of Interactivity*).

Once advertisers get consumers to their sites, they have a more formidable challenge enticing them to return, since the range of alternatives is constantly growing. Moreover, advertising on the Internet is very much a pull technology—it depends on people choosing to go to the advertiser to hear the message. E-mail, which is more of a push technology, provides an alternative. But e-mail messages are short and direct, with few opportunities to present complex ideas. And amid all the e-mail clutter, consumers are just as likely to delete the message unread as take the time to read it.

It is essential to leverage the new with the old to accommodate consumers' channel-bundling behaviors and achieve the best relationships up and down the scale. For example, several traditional mail-order catalogs, such as Eddie Bauer and Lands' End, have embarked on e-mail campaigns designed to drive business to their catalogs or Web sites. Perhaps more surprisingly, many online retailers like Red Envelope, nike.com, and even Amazon have created paper catalogs to establish Web site and product awareness.

In interviews with business experts, we found companies are using multichannel approaches to keep customer-profile information up-to-date. Many companies have found that customer e-mail addresses go stale fairly quickly, since consumers can change their e-mail address relatively easily. Netcentives, a direct marketing company, sends postcards requesting consumers to update their profile information, including their e-mail addresses. In exchange, consumers who return the postcard with their updated information receive a thank you and a reward from the company, such as points toward airline miles or discounts from retailers.

Despite such innovative e-communication, our surveys suggest that consumers prefer old-world media such as mail to receive information from businesses. Indeed, mail is

It is essential to leverage the new with the old to accommodate consumers' channel-bundling behaviors and achieve the best relationships up and down the scale.

the preferred medium for communicating directly with businesses on matters of importance in both North America and Northern Europe (see Figure 3–4).

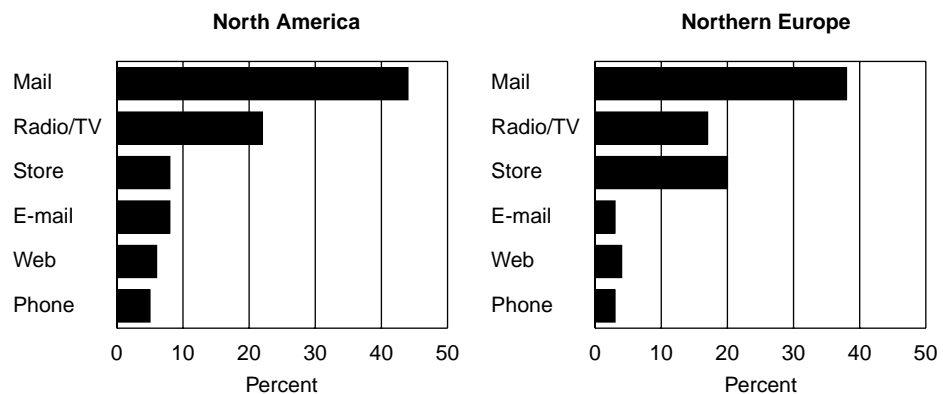
As currently used, mail is an important way for businesses to stay in touch with individual consumers—it provides more detailed information, a reminder, a scene setter, or a resolution of issues. With its paper trail, mail also remains a credible channel for problem solving (or confirmation that a problem has been addressed).

To maximize the value of consumer information, and move up the relationship scale, a business must explore the entire range of options for communicating directly with customers. Businesses must investigate channel synergies across all the points of contact with their customers. Table 3–8 demonstrates the synergies of one old-world medium, mail, with a broad range of other communication channels.

CONCLUSION: LOOK TO INTERACTIVE COMMUNICATIONS

As the New Economy shifts more power into consumers' hands, companies will do well to learn how to earn the trust and commitment of their customers. They can do this by understanding how consumers use different technologies to communicate and by paying attention to the complexities of building relationships all along the scale. In doing so, they will be able to adapt to a new paradigm of business-to-consumer communications. To successfully climb the relationship scale, business must move away from mass media communications toward more intensive, targeted, personalized, and interactive communications with individual customers. We discuss three such possible models for the future in the next chapter.

Figure 3–4
Mail Is Very Useful for Sending Messages
 (Percent of adults who prefer to receive messages from businesses by...)



Source: Institute for the Future, International Household Survey, 2000.

Table 3–8
Opportunities for Bundling Mail to Reinforce Messages in Other Channels

Telephone	Entertainment
More detailed follow-up to a phone query	Follow-up to ticket purchase for movie/entertainment
Using pattern of phone queries to target discounts/offerings	Follow-up to an inquiry at a street fair
Follow-up on a telephone-based purchase	Accepted free gift at sporting event
In-store	Web
Welcome to a consumer after first tracked purchase at a store	Follow-up to a Web visit and inquiry
Follow-up to trying out clothes/cosmetics at a department store	Follow-up to a Web purchase
A shift in pattern of buying at a grocery store	Follow-up to a pattern of Web behavior
Follow-up to using a particular discount coupon at a store	Follow-up to accepting a Web coupon
The first recorded purchase of a new product or new brand	
Notice of sale of favorite products	

Source: Institute for the Future

KEY CONCLUSIONS AND IMPLICATIONS

- Consumers are developing increasingly sophisticated and individualized strategies for gathering information to make purchasing decisions. To reach them, businesses must learn to communicate across different channels with individual consumers to build, maintain, and deepen relationships with their customers.
- As communication channels fragment, it is more important than ever for businesses to create a clear message that is delivered consistently across multiple channels.
- Interactive technologies are transforming the communications landscape by creating new opportunities to engage consumers in a two-way dialogue.
- Increasingly, businesses will be challenged to convert advertising messages into real-time sales and service opportunities. Add to this mix the value of building long-term relationships with customers, and the traditional lines between advertising, marketing, sales, and customer service functions within a company blur beyond recognition.

Business Models for Integrated Business-to-Consumer Communication

In the next 10 years, more sophisticated, demanding consumers and the proliferation of interactive communication technologies will continue to blur the boundaries between the marketing, advertising, sales, and customer service functions in consumer-oriented industries. Under these conditions, integrated communication strategies will be the key to building interactive customer relationships in 2010. To implement such strategies, companies must rethink their partnerships, their value exchange with customers, and how they are organized to compete in a customer-centric marketplace—where growth and profits are linked to long-term customer relationships.

In 2010, truly integrated business models will emerge to provide a full range of information, services, and goods to consumers. These models will work all along the relationship scale and will serve to create a more seamless experience for consumers across multiple communication channels. One model will leverage the electronic infrastructure to exchange information, goods, and services

between customers and businesses; the second will leverage bricks-and-mortar locations to provide high-value service through face-to-face contact and an experiential environment. A third model will provide a comprehensive suite of agent services to help sophisticated consumers manage their lives more effectively.

The three models are defined as follows:

- *Marketplace Forum* is a trusted Internet portal providing consumers anytime, any-place access to a comprehensive network of providers of all kinds of goods and services, including financial services, retailers, autos, food, etc. This model gives control over personal information back to consumers, works as an agent in negotiating the value exchange between businesses and consumers, and functions as the key point of interaction in the virtual marketplace.
- *The Experience Zone*, the next generation of retail bricks-and-mortar, leverages the advantages of physical presence, face-to-face contact with the customer, interactive technologies, and in-store product customization to create individualized experiences for each customer.
- *The Life Management Agent* represents the evolution of the agent role to encompass a much wider range of offerings and assume far greater responsibility for consumers' tasks. This model appeals to niche consumer markets seeking relief from the increasing stress of modern household life associated with juggling multiple roles and coping with major issues across a variety of life domains (e.g., health, career, finance, and so on).

MARKETPLACE FORUM IN 2010

The Marketplace Forum is the premier portal providing access to the virtual marketplace from any location by means of any device available to consumers (see sidebar, "Communication Devices in 2010"). When the Web consolidations came to a close in 2005, it was clear that one dominant player would emerge from the ashes of the myriad Internet service providers (ISPs) and online portals that overpopulated the Web at the turn of the millennium. The approval of the AOL/Time Warner merger at the beginning of 2001 started the wheels turning, and soon leading content and infrastructure players were meeting to hammer out long-term deals and provide a secure, integrated interface and infrastructure for a truly seamless virtual marketplace. Stimulated by the merger of the two most successful virtual players—Yahoo! and Amazon—the Marketplace Forum was conceived in 2004. Since its launch, the Forum has successfully leveraged the assets of Yahoo! and Amazon to build the largest global network of consumer-oriented companies. These include retailers, financial service firms, media companies, entertainment and travel agencies, and much more.

COMMUNICATION DEVICES IN 2010

New to market

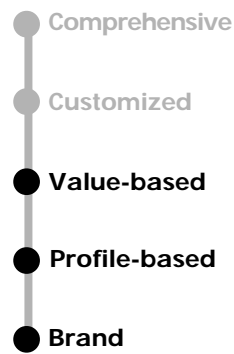
Interactive digital television
Interactive radio through home stereos and cars
Networked home appliances

Established

Web-enabled mobile devices (e.g., PDAs, mobile phones, pocket PCs, etc.)
High-bandwidth connection to the home through PCs and television
Web-enabled automobiles
In-store kiosks and mobile devices

Traditional

E-mail
ATM
Telephone/Fax
Mail



Trusted Portal Site

At the core of Marketplace Forum's success is the trusted brand equity that Yahoo! and Amazon bring to the collaboration. Yahoo! continued to lead other portal sites in attracting the greatest number of loyal users during the early part of the decade. At the same time, Amazon finally moved into the black to become one of the first profitable large-scale online operations. This dynamic duo has leveraged its consumer clout to form partnerships with a wide range of infrastructure providers and give access to its online portal through virtually any Web-enabled device, including wireless home networks, mobile information tools, ATMs, and kiosks, to name a few.

Marketplace Forum's pervasive presence in homes, retail and entertainment outlets, and schools has made it *the* preferred entry into the virtual marketplace. To attain that stature, the Forum bypassed competitors such as AOL/Time Warner and MSN-Fox and now claims nearly 60% of the market. One market analyst recently reported, "Marketplace Forum meets all of consumers' needs in a point-of-contact virtual marketplace; it's a consolidation of portals."

Leader in Establishing Technical Standards

Marketplace Forum's position as a central hub for consumer access has made it instrumental in pushing through standards to resolve many systems integration issues that plagued service providers through the first part of the decade. Key standards for content delivery mechanisms for different devices, user interface tools, security, Web-based

transactions, and information exchange have created a seamless experience for the consumer and real cost advantages for businesses joining the Forum's network.

Innovative Leader in Consumer Privacy Protection

After acquiring Persona, a leading developer of privacy enhancing business-to-consumer interaction tools, Marketplace Forum emerged as an advocate for protecting consumers' personal information. Its commitment to consumer privacy earns it high trust and loyalty ratings from consumers. Likewise, its strong consumer focus makes it an attractive partner for consumer-oriented businesses.

Its key success has been in creating a set of tools with which businesses and consumers can interact and exchange information, and a virtual forum in which the exchange can take place. One of the most important tools introduced by Marketplace Forum is the Personal Information Account (PIA). PIAs became very popular in the early part of the decade after a much-publicized suit against a leading U.S. retailer found them guilty of compiling individual customer profiles without permission and selling the data to third parties. PIAs gave consumers the tools to manage their communications and relationships with myriad businesses; thus take back control of their personal information.

PIAs are modeled after consumer bank accounts. Consumers have full control over all their personal information—everything from their names and addresses to their purchasing histories, and even their searching patterns as they navigate the Forum.

Intelligent search engine technology works with consumers to capture their data, which can be used in exchange for highly targeted and relevant information from the providers. Information statements are sent electronically to consumers every month so they can track their own activities. Consumers also are welcome to close their profiles at any time and withdraw all their information from the account.

Access to information in the profile is strictly limited to the individual consumer. However, there are markets and exchanges through which the Forum can broker an individual's information to attain discounts, free samples, product information, and promotional offers for the consumer. Although companies do not have access to individual customer data, the Forum provides them lists of consumers who have expressed interest in receiving information on particular products or services. Marketing to only these select consumers has nearly tripled response rates to targeted advertising campaigns and reduced online marketing costs by nearly 40%.

Wide Network of Partnerships

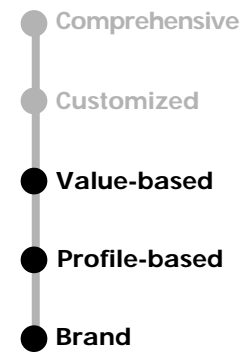
Marketplace Forum boasts the largest network of product, service, and information providers in the world. No matter where they are, consumers trust Marketplace Forum to connect them with a trustworthy local provider who can meet their needs.

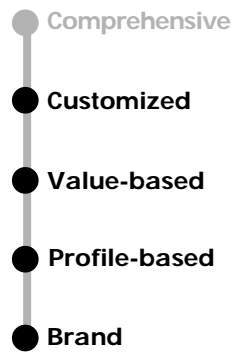
Many struggling virtual retailers have taken important steps toward getting their operation to scale by leveraging the network's resources, such as its consolidated final-mile delivery of goods. In 2010, the Forum accounts for over one-third of

e-commerce deliveries, equal to over one billion packages delivered per year in the United States alone. Retailers also can access the Forum's opt-in marketing list to send advertising messages to consumers who have given their permission for Forum companies to send them information. Consumer interest and demand drive the success of the Forum's provider network. More and more consumers are choosing to do business strictly with those companies that participate in the Forum.

Emphasis on Customer Interaction

Marketplace Forum is well known for its outstanding customer service. It focuses on pull technologies that allow consumers to interact when they choose, through the communication channel they prefer. Long gone are the unsolicited advertising banner messages and annoying pop-up windows of 10 years ago. In their place is a sophisticated user interface that enables high-quality customer interactions. Consumers manage the types of information and communication they want to receive from businesses and customize the user interface to their preferences. At any time, consumers can access a live customer service agent to answer questions and help navigate the Forum.





THE EXPERIENCE ZONE

Retailers and consumers alike are enjoying the fruits of the bricks-and-mortar renaissance that has been underway for the better part of the last decade. In 2010, stores are much more than a place to shop and buy products. Consumers are visiting stores to play and be entertained! Large retailers like Home Depot, JC Penney, and Kmart are dedicating more of their retail space to “experience zones” that allow customers to interact with, test, and evaluate products.

Create an Experience

These experience zones have become an incredibly important marketing tool for major brand manufacturers who are leveraging the opportunity to interact with consumers one-on-one. Whether the products are toys for kids, music for teens, beauty care for women, or power tools for men, manufacturers are creating experiential environments within the stores of their retail partners. These zones allow consumers to try their products, offer feedback for improvements, or customize their own version of the product. In the process, retailers and product manufacturers are collecting detailed, in-depth data about individual consumers through these face-to-face interactions to complement the purchasing data and consumer profiles generated by smart-card programs. This information about the customer allows businesses to respond with customized communications like newsletters and e-mails, as well as personalized services like one-on-one consultations with experts that consumers can opt-in to receive. All of these are designed to reinforce long-term relationships with customers.

Integrate New Products with Activities

An important area within the experience zone is the new product introduction stage. Here manufacturers display new products, give demonstrations, and provide free samples, making it a truly interactive, experimental space. Knowledgeable product experts such as beauty and fashion consultants, construction engineers, nutritionists, and child development specialists talk with customers about their particular needs and offer information and advice.

Every month, stores post a schedule of day and evening classes for its customers, promoting activities related to the products they sell. For example, Kmart offers ongoing classes in home construction, interior decorating, and cooking as well as craft making for kids.

Information Is Currency

Like the Marketplace Forum, experience zone retailers give consumers more control over their personal information. Instead of using data about customers to guess what kinds of promotions or new products they may be attracted to, retailers now let consumers exchange information directly for value-added services.

For example, customers can use smart cards that hold their PIA profiles at terminals located throughout the experience zone or at in-store kiosks. The card records information exchanges initiated by the consumer and services provided by the retailer. Consumers can exchange personal information to participate in classes or experience zone activities or to get access to special product

promotions. Information required for the exchange may include demographic characteristics, feedback on products, personal preferences, and other data that might be helpful in improving the customer's experiences.

Integrate All Points of Retail

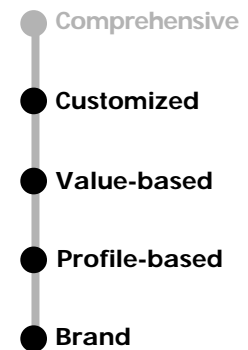
As more purchases are made in the virtual marketplace, the retail store becomes critical for integrating multiple points of contact with consumers. Retail stores are taking advantage of their unique position for providing a personal touch by servicing all of the customer's shopping needs. In addition to checkout lanes, for example, there are pick-up lanes for products ordered remotely, and drop-off lanes for complaints or returns.

To unify the retail experience in this way, the retailer's virtual presence is integrated seamlessly into the store's physical layout. Throughout the store are a number of kiosks, which serve multiple purposes. The home page on each kiosk shows the store's layout, so consumers can quickly find exactly what they are looking for; or they can call up inventory information to learn immediately whether the product they want is available in the store. Some of the new shopping baskets also are connected with tracking devices which guide the consumer to any product in the store, and scanning devices which keep track of products placed in the cart—drastically shortening lines at the check-out. To broaden selection, the kiosks provide an expanded inventory of products that can be shipped to the store or directly to the customer's home. Consumers also have the option of connecting to the store's network

remotely through their own mobile device to pre-order routine items at home or on the road on their way to the store.

Further, the kiosks allow customers to access and manage their PIAs, which show them what promotions or discounts are available, based on the information they choose to share with the store. Once they make a selection, consumers can scan products they want to buy and complete the purchase.

The key to integrating these multiple points of contact with consumers is a centralized information system that tracks individual customer activities across all channels, wherever they are accessed. They do so by means of an effective smart-card program tied to inventory management. The system enables all of the timesaving and choice-enhancing innovations of the experience zone. For instance, if a customer wants to return an item, all she needs to do is scan her smart card, state her issue, and drop the item in a marked bin. The store's information system automatically checks the claim against past purchases and credits the customer with an immediate refund, no questions asked. Although 98% of customers use this system once in a while, such use falls within reasonable parameters that save the store time and effort in resolving standard errors.



- Comprehensive
- Customized
- Value-based
- Profile-based
- Brand

THE LIFE-MANAGEMENT AGENT

In 2010, a small but fast-growing niche for a new kind of consumer agent is emerging. Societal trends such as the increasingly fast pace of life, and changing gender roles for women who move into the work force *and* up the corporate ladder, are driving the growth of this new market. Other drivers are more diverse household compositions, with more blended families, more groups of single, unrelated people living together, more domestic partnerships, and more extended families living under the same roof.

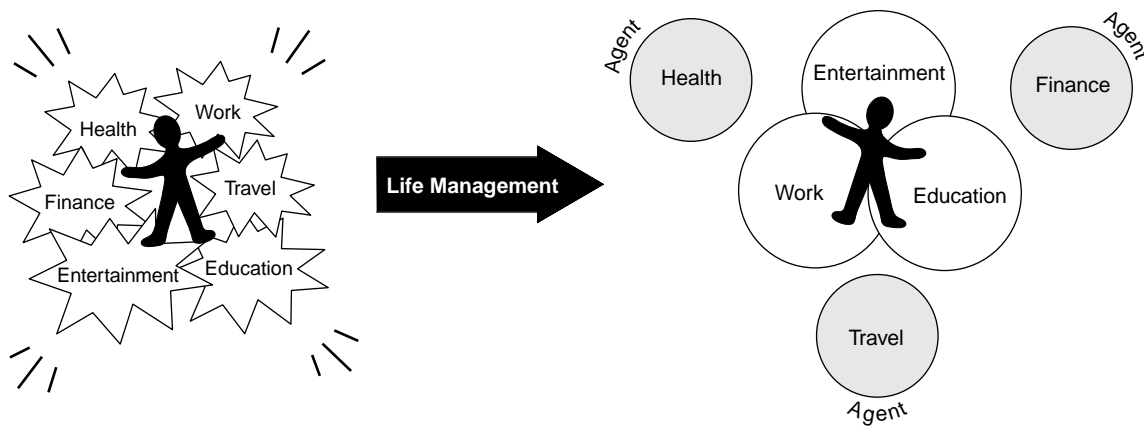
For many people, the realities of life in the information age are placing more stress on the household and increasing the amount of work required to manage it effectively; at the same time reducing the amount of time available to do such work. Life management

agents are appearing in numerous different roles to help consumers manage different aspects of their lives more efficiently (see Figure 4-1). Quicken and Merrill Lynch offer a suite of life management services in the financial arena, for example, and Oxygen and WebMD offer services in lifestyle and health care respectively.

Limited Number of “Deep” Relationships

Life management agents require an unusually high level of trust from their clients. To serve well, a life management agent must understand the details of a consumer’s life—at least in the particular area of expertise. If the client doesn’t trust the agent, the arrangement will quickly wither. Respect for a consumer’s privacy and the security of his personal information is paramount in earning this trust.

Figure 4-1
 Life Management Agents Help Consumers Manage Different Aspects of Life



Source: Institute for the Future

Because of this very high trust threshold, most consumers maintain few of these kinds of relationships. Instead, they prefer to work with one or two agents to target particularly difficult areas to manage. However, the issues of trust do vary depending on the type of life management services offered. For instance, life management agents in the health area require higher levels of trust, than, say, in the finance area, where consumers have been comfortable trusting agents for some time. Accessibility to a real person who works with the client is also an important aspect of building trust in a life management program. For example, Merrill Lynch assigns a team of agents to each client. Depending on the size of the account—although the qualifying levels are much lower than 10 years ago—the team will take the client out for dinner to get acquainted, at which time each team member is introduced, their roles explained, and so on. Afterwards, one of the team is available to the client 24/7, and can be reached in multiple ways, including live online access, phone, or appointments at the office. Clients can schedule one-on-one consultations at any time convenient for them.

Cater to Changing Life Stage Needs

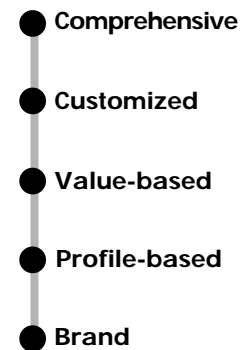
One important characteristic of successful life management agents is their ability to adapt their service and offerings and anticipate their clients' changing needs over time—indeed, over a lifetime. For example, single people or young married couples without children who are just entering the “real world” and learning to juggle many new roles at home and in the workplace may need help

managing. Others, such as empty nesters or retired individuals who are facing more complex needs in different domains of their life such as health, transportation, and finance, may require a different set of services. Likewise, working parents with children at home can find it difficult to manage multiple roles across home life and work and may require more comprehensive services to help create a sustainable balance (see Text Box, “A Day in the Life of a 2010 Consumer”).

This commitment to an ongoing relationship means that life management agents work closely with a client to set up a program customized for the client's individual needs. The service goes into maintenance mode for as long as the client's needs remain the same. When there are major life changes, the agent is available to work with the client to adapt the life management program as needed.

Tap into Communities of Practice

To give their clients the best possible range of services, successful life management agents tap into communities of practice. These communities bring together a network of people and companies engaged in similar roles and activities. Oxygen's agent service offers members of their virtual communities a source of support, advice, and resources for many people learning to manage different roles such as parenting or different activities such as travel and entertainment. Life management agents geared toward these communities can become experts in the areas of most interest to the community. They provide services and offerings tailored to the specific needs of community members.



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A DAY IN THE LIFE OF A 2010 CONSUMER

Sam pressed the answer button on his home networking device and sent the incoming call to his television. Vince, his Merrill Lynch life management agent, appeared on the screen, “Hi Sam! How are you doing? Long time, no speak!”

Sam smiled as he plopped into his favorite recliner in front of the TV and put his feet up, “Hey, Vince! Yeah, I know. It’s been about six months since I came by the office to talk to you and Barb and sign off on my tax filing for this year. Time sure does fly.”

“Is your back still giving you problems?”

“Not lately, Patti and I have been taking it easy since little Sam took off for college last month. I still can’t believe my boy is three thousand miles away! But I can tell you this—I am really glad you guys helped us start up his college fund way back when. We received your note that the first payment on his tuition went through last week! It is a huge relief to know that you guys are taking care of all that.” Sam smiled at his wife, Patti who was nodding her head as she listened in on the conversation from the kitchen.

“I am glad to hear that! Actually, that reminds me of why I am calling today. Is Patti close by?”

“Yes, as a matter of fact she is right here.” Wiping her hands on a dishtowel, Patti walked over to sit beside Sam, waved to Vince, and laughed when she saw him wave back on the television screen.

“Vince, you are looking very tan,” Patti teased,

“Have you been off island hopping again?”

Vince chuckled, “Not this year, no islands—just lots of weed pulling in the garden last weekend! Well, now that I have both of you in front of me, I wanted to talk to you about your retirement accounts.”

“Aaahh, retirement!” sighed Sam, “Is anything wrong with our accounts? We can still retire in 2015—right?”

“Of course! There are no problems, I just wanted to get you folks to start thinking about diversifying some of your more aggressive holdings—it looks like we might be in for a downturn in the next couple of years. I just wanted to make sure that we keep you guys on track.”

Patti’s furrowed brow softened, “Whew, you had me worried there for minute, Vince. You know I already have the spot picked out for our little log cabin up near Mount Shasta.”

“Yeah, yeah, I know. Far be it from me to keep you from your log cabin. In any case, I just wanted to let you know that I am making some changes to your allocations.”

Sam and Patti carefully looked over the statement that appeared on the split screen. “Hey, it looks fine to us. Anything we need to do?”

“Nope, I will take care of everything! Just be sure to let me know if you have any questions. I will talk to you soon!”

“Thanks, Vince,” said Sam and Patti in unison.

Rely on an Extensive Partnership Network

Life management agents are the most successful in facilitating interaction and making connections between clients and service providers, experts, and other resources that assist in creating real solutions. Part of the value of life management agents is the network of partnerships with other companies or brands the agent can bring to bear in developing solutions. For example, WebMD's life management agents actively maintain a network of medical professionals, health and nutrition specialists, in-home care providers, pharmacists, and so on to meet their clients' diverse needs in the health domain.

Stimulate Word-of-Mouth Referrals

Life management services are targeted to the upper end of the market, to consumers who have enough income and are busy enough to need help managing important parts of their lives. But they are a surprisingly strong part of the market. About 25%

to 30% of the target market use a life management agent service for at least some help. Providers of life management services have developed a nice model that allows them to help a larger number of individuals with certain problems on a one-off basis. These one-time services are a key component of their marketing strategy, as they stimulate personal referrals and create a base on which to build more intensive relationships with customers over time.

CONCLUSION

These models of integrated communications illustrate how companies in 2010 will leverage interactive media, one-on-one interaction, and information about the customer to expand and deepen their customer relationships. Successful companies will identify the range of relationships with their customers that are possible, and use an appropriate balance of technology and human agents to climb the relationship scale.

