



# Drop in, Turn on, Know more

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## Introduction

The relationship between vendors and their customers has always been tenuous but in the last several decades we have seen what was once a workable arrangement become impracticable. The causes abound for this slow disengagement. Conventional forms of customer outreach including advertising, direct mail, email solicitation, popup ads and other traditional methods of push marketing all show significant fall off in effectiveness. Many blame spam filters, popup blockers, TV devices that zap commercials and more.

But numerous market analyses also show that customers have become highly skeptical and distrustful of corporations due to scandal and corruption reported in all media. More telling, the low success rates reported for new product introductions suggest that companies have a poor idea at best of what customers want and need and are thus willing to spend their money on. In this environment traditional marketing has fallen flat.

There is ample evidence — from both the business-to-business (B2B) and business-to-consumer (B2C) worlds — that enterprises need greater customer input into product direction, marketing, advertising, and messaging; in a word, engagement. The key to engagement is finding a way or ways to achieve greater customer intimacy that are accurate and affordable. This Beagle Research Group Executive *White Paper* examines the forces driving the market and it identifies a solution that is both ancient and very modern — when in doubt, ask the customer.

## The customer relationship is broken

Customer relationship management (CRM) was supposed to solve myriad problems that exist between vendors and their customers. While many aspects of customer relationships have improved, many experts find that there is still a gulf between vendor and customer and that economic, social and demographic changes are, if anything, widening the gap. Symptoms of this reality abound in several areas.

## Products

Each year corporations spend hundreds of millions of dollars making and trying to sell products that the marketplace has little use for. Certainly no one consciously pursues failure but lacking refined tools to improve performance, much is wasted. According to New Product News, of the 36,000-plus new products that hit the shelves in the U.S. in 2005, 80% will fail. In that environment the cost of getting it wrong weighs heavily on product and brand managers and mar-

keters as well as senior level corporate officers — not to mention the bottom line.

### Marketing

Additionally, there is ample evidence that customers in general have turned their attention away from traditional marketing. For example, broadcast advertising is either ignored in favor of channel surfing and the refrigerator, or it is eliminated by devices that skip over commercials or it is diluted by the plethora of cable choices. Direct mail is often thrown away unopened, and spam filters and popup blockers ensure that marketing messages never reach their intended targets.

### Retention

In a related issue, customers that companies presume to be satisfied have unacceptably high attrition rates and each year companies spend much of their sales and marketing energies trying to recruit new customers that will replace the losses and provide acceptable growth.

### Trust

Given recent scandals it should surprise no one that trust is low<sup>1</sup>. According to a 2004 Gallup International and World Economic Forum study of 36,000 people from 47 countries, 48% had little or no trust in global companies and 52% had little or no trust for national companies.

### Why?

The high costs — and poor results — of product development and introduction and low customer retention have common roots in the way organizations view their customers, according to Shoshana Zuboff of Harvard Business School<sup>2</sup> and James Maxmin. Zuboff and Maxmin claim that the corporate business model of mass production and mass consumption (abetted by mass media marketing) are a poor fit for a population of consumers that is richer, better educated, and more time starved than

## Satisfied customers: not all are loyal

Though many conflate customer loyalty and satisfaction the two are very different. Customer loyalty is a close relative of customer retention which is part of the focus of this paper. Unfortunately, organizations frequently assume that high satisfaction scores indicate that their relationships with their customers are better than they in fact are.

According to Walker Information of Indianapolis, IN, ([www.walkerinfo.com](http://www.walkerinfo.com)) loyalty is the combined result of customer attitude and behavior. Attitude is formed through a customer's experience with a vendor, its products and services, while behaviors directly result from a customer's decision making processes based on experience.

### Bottom line benefits of loyalty

Customer loyalty has significant bottom line benefits. Though many people would agree that loyal customers are more likely to buy more, it has always been difficult to prove or to quantify, but Walker has taken that step. The company divides the loyalty world into three segments:

- Loyalty laggards – companies that have earned low percentages of truly loyal customers and high percentages of high-risk customers.
- Loyalty Limbo – companies that register poor scores for truly loyal customers or high-risk customers (but not both).
- Loyalty Leaders – companies that have earned high percentages of truly loyal customers while compiling relatively low percentages of high-risk customers.

According to Walker, in the information technology market, over the last three years, vendors that are considered loyalty leaders have enjoyed 11 percent better operating margins and 23 percent better stock price performance than Loyalty Laggards. By any measure companies that find ways to treat customers well and build customer loyalty do themselves a great service.

any generation in history. Today's customers are taught from an early age to think of themselves and their needs as unique and they expect tailored solutions from vendors, not mass market products.

Other researchers, such as Don Peppers and Martha Rogers<sup>3</sup> have identified the current era as one of organic growth in which companies that will prosper will do so because they have found ways to engage with their customers to better understand their requirements. Peppers and Rogers say that effective customer engagement and mutual understanding drives better relationships which in turn drive repeat business and more profitable transactions. Their metric, return-on-customer (ROC) neatly summarizes the idea that the most profitable transactions are the second, third, or  $n^{\text{th}}$  which are propelled by mutual understanding and trust. Additionally, separate research by Glen Urban<sup>4</sup>, and Eric von Hippel<sup>5</sup> both of MIT amplify findings of Zuboff and Maxmin, Peppers and Rogers.

### **Search for a solution**

We have known for as long as there has been trade that the solutions to many of the problems that vendors face involves closer engagement with customers to better understand their needs and wants. Yet for just as long, capturing the information that drives this simple equation has proved frustratingly elusive. The time and expense of performing traditional customer outreach have prohibited many organizations from trying. And, those that do try discover that conventional surveys and focus groups provide snapshots in time of customer thinking that fade all too rapidly.

In this environment the Internet emerges as a dual edge sword for most enterprises. The Internet has made detailed information about companies, their products, and business practices available to anyone and everything that is knowable about a company can be known by anyone with a PC and a browser. A bad customer experience may have once resulted in a company losing a customer and possibly the customer's friends but today the Internet gives the customer unprecedented power to broadcast the bad experience to the world. And modern online vendors such as Amazon.com and eBay have made it easy for people to write reviews of products and vendors further amplifying the risk of a bad product or customer interaction.

But all is not lost for the vendor. The Internet can also be a powerful tool for enterprises to use in reaching out to customers to gather their ideas and insights. The outreach can result in profound benefits to an organization including product co-innovation and dynamic and rapid validation of branding ideas, messages, and even offers. Most importantly, research has shown that active, dynamic customer outreach generates increased loyalty in customers — precisely the result marketing professionals have been seeking, but not finding, with traditional marketing tools and techniques.

### **The customer community: A different tool for a different purpose**

Traditional market research tools including focus groups and customer surveys have generally been thought of as the necessary equipment for gathering customer input about products and services and for understanding loyalty. But while these tools can deliver a good deal of quantitative information about some aspects of customer demand, they often fail to engage individual customers or gather the emotional insights that bond a customer to a product or a brand — this information is the driving force behind attitude and behavior.

Just as traditional tools help organizations to ferret out quantitative information, the customer community is the essential tool for engaging customers at an emotional level. Communities provide the missing qualitative information needed to complement quantitative studies — they often answer the “Why?” and “How?” questions where traditional tools can usually only focus on “What?”

There is a subtle but important difference between the approaches used in traditional market research and those used in a community. First, a community is not a focus group or a survey population per se. Where a focus group is a one time assembly of customers, a community is semi-permanent. And while community organizers may use statistical analysis just like surveyors, their questions are more focused on attitude, and behavior. Communities place vendor and customer on the same side of the table to share the task of understanding. Lastly, communities exist long enough for members to get to know and trust each other, to share ideas on a broad array of topics — and for community organizers to ask follow up questions.

A community asks the customer what is needed and what the customer would buy by asking about the customer’s habits, likes, and dislikes. To this approach traditional marketers may say, “But the customer doesn’t know what he or she wants,” and they would, of course, be right. But they are only correct if they mean the customer will have difficulty if asked the direct question, “What do you want?” On the other hand, if asked questions like, “What are your feelings about x?” or “Why do you think y?” customers often open up and provide a great deal of information about the precursors of demand — motivation.

In a community, the marketer asks customers questions about modes of use and feature preferences and correlates that information with life styles, and product related activities which contributes to co-innovation. The same is true for strategies, messages, branding ideas, advertisements, product names, and more.

Most importantly, marketers can observe as customers engage with one another to freely share ideas that, in many cases, would never occur to the vendors. Communities help marketers to “know what they don’t know.” From this data a clear concept of what customers think — the voice of the customer (VOC) — emerges. By involving customers in these activities, marketers increase the chances that their final work product will be on target.

### **Facilitating a community**

Facilitating a community, or enabling the conversations that must take place for the community to deliver value, has social and anthropological aspects to it — an on line technology platform with periodic connection and access to others is not sufficient to make a community a success. There are three key characteristics unique to communities that drive information sharing, each of which is described below.

### **Building trust**

Trust building is actively pursued and is the most important community exercise for without it nothing follows. Not only is it important for the company’s marketing professionals to develop trust between the company and its customers, but it is equally important that the community can build an environment of trust among its members. Since much of the value a community delivers is in the form of opinions and ideas that have been vetted by the group, if the group lacks an

environment where novel or even off beat ideas and their sponsors are respected, then the quality of the group's output will be diminished.

Researchers such as Urban have shown that trust radiates outward; by setting up an environment in which trust and tolerance are the norms, individuals reciprocate. For example, eBay's success is in part driven by its rating mechanisms that help anonymous buyers and sellers to trust each other. According to Urban: "On eBay, customers give positive and negative comments on sellers, and even a few negative comments can immobilize the seller's auction by reducing the number of bidders."

And trust works. Experiments have shown<sup>6</sup> that buyers bid, on average, 7.6% more for otherwise identical items that are listed by repeat sellers with high reputations. eBay has become so trustworthy, in fact, that it is a major force in used car sales, which totaled \$2.5 billion in 2002. Experienced community consultants understand the value of intra-community trust and therefore schedule trust building exercises with the group as a regular part of the community's activities.

### **Freely revealing ideas**

One of the major reasons for sponsoring customer communities is to capture customers' freely communicated ideas, hence the need for an environment of trust. As already mentioned, many times a customer will offer an idea that the sponsor would not be able to come up with; at other times a participant may reveal something that gives insight into the formation of a personal opinion, which can be very valuable. Frequently, these valuable ideas may only surface as the result of interactions among several community members. This type of interaction is largely missing from focus groups and totally absent from surveys.

In *The Democratization of Innovation*, Eric von Hippel traces the historical context of users freely revealing their innovations to peers and colleagues — at least as far back as the steam engine and the blast furnace — through user groups, industry fora and publications. In the current era von Hippel cites as examples of free revealing users of library search software, clinical chemistry analyzers, and even IBM which revealed its process for developing semi-conductors using copper interconnections rather than the traditional aluminum ones. "After some delay, IBM revealed increasing amounts of proprietary process information to rival users and to equipment suppliers."<sup>5</sup>

The reasons for free revealing are many. Some users want their vendors to simply build better and more useful products, others see sharing as a public good, and still others wish to unburden themselves from the need to maintain something that may be out of the mainstream but which could become a standard if adopted by the larger group. Serendipitous free revealing can rise to the level of product innovation or message direction or it may simply inform others about the ideas of one person. But in a customer community, the accumulation of such information forms a knowledgebase. It is the accumulation of freely revealed information that enables marketers to confidently know the target customer.

### **Authentic communication**

Trust, community building, freely revealing ideas, and member familiarity form the basis of authentic communication between a vendor and a customer, but authentic communication between vendors and their customers is still a relative rarity. Most forms of marketing communi-

cation are unidirectional and initiated by the vendor — either a vendor is capturing anonymous information such as clickstreams and the like or the vendor is prescribing a course of action, a product or a service through a broadcast communication method based on a statistical segment. But very rarely does the vendor venture out to engage the customer directly due to the costs involved and the relatively small sample sizes described earlier. Consequently, the information exchange is more or less permanently stuck at the level of extraction and exchange.

According to Forrester Research<sup>7</sup> extraction involves no direct contact with customers and is limited to activities such as buying lists or other statistical data, and exchange encompasses customer “volunteered” data such as clickstreams. Any marketing or product decisions made from analysis of such data are inductive, meaning that the marketer proceeds from detailed facts to general principles. But this is precisely the problem expressed in the old joke about the blind men trying to describe an elephant<sup>8</sup>.

Product failure rates of 80% noted earlier would suggest that an over-reliance on inductive techniques does not work well. Basing product decisions on a random coin flip should result in a 50/50 success/failure rate; an 80% failure rate is not only bad but suggests that the processes behind it are deeply flawed and are actually antithetical to success.

Communities, on the other hand, provide vendors an opportunity for deduction — proceeding from the general to the particular, from cause to effect — from need to product or message. Achieving a deductive reasoning environment requires authentic communication and engagement at the emotional level. Authentic communication, as the name would suggest, is bi-directional; it involves equal parts listening and talking, diagnosis before prescription. It can include capturing values, passions, opinions, concerns and more. It is precisely why a semi-permanent and representative community of customers can provide a vendor with deep insights for the customer base as a whole.

### **Benefits of Communities**

Organizations that sponsor communities can receive numerous benefits from their efforts and the characteristics of benefits can be directed based on the population selected, the activities presented, and even who does the asking. For example, a company interested in evolving a highly technical product might assemble a community of technical customers or partners; alternatively, a consumer products company would seek out community members from the particular consumer demographic at which the product is targeted. These two areas might better be defined as product co-innovation and, branding and messaging.

### **Co-innovation**

In some ways, the output of all communities is co-innovation of one kind or another. Either customers are contributing ideas about products or they are offering opinions about branding, advertising and similar subjects. For our purposes, co-innovation refers to a focus on product functionality and features that will in various ways improve the performance and acceptability of an existing product. But co-innovation can also refer to a product innovation and development process. For example, a major car company is using communities to understand customer preferences for new cars based on alternative fuel and ultra-low emissions. It may be decades before such a vehicle rolls but early decisions about customer needs and preferences can save millions of dollars in research and development costs.

### **Branding and messaging**

Positioning, messaging, branding, and advertising are more immediate needs that companies struggle with. From who buys a product, to how to sell it, and even what to call it, companies need the input of customers to make hundreds of decisions that will mean the difference between success and failure. And with the cost of failure so high today, finding a way to help ensure that a product is positioned in the best possible light has a profound effect on profit and loss for many companies.

Some of the most desirable consumer demographics such as “high net worth individuals”, “busy professionals and executives” or “young men” are also the hardest to reach by conventional focus group and survey methods. But thanks to the Internet, the asynchronous nature of communities is an ideal fit for these individuals who are also technically literate and, in many cases, willing to participate in communities when and as their schedules allow.

### **Communispace**

Communispace is a leading innovator in the customer community market. The company’s more than 200 successful customer communities have helped large organizations from consumer goods to transportation and financial services to improve their products and messaging. Combining advanced research in how people work together and communicate, Communispace’s products and services help organizations to know their customers. Depending on the company, product, and need, Communispace helps companies improve their product development, enhance customer loyalty and zero in on the marketing messages that resonate with their customers.

Communispace community consultants engage with their enterprise customers several times each week to brainstorm community activities and monitor community progress. Depending on the client and the need, the consultants also periodically help them to select anywhere from a few hundred to several thousand customers to invite into a community. These selected customers as a group will represent a cross section of the company’s customer base. For the duration of the community, members agree to visit a community Web site on a regular basis to interact and offer their opinions and ideas through a variety of activities designed to build rapport between community members and to capture their thoughts.

Rapport building is critical to the success of any community. People are expected to share their thoughts and ideas and Communispace manages the communities to ensure that everyone’s views are respected so that each person feels encouraged to contribute.

Typically, community activities can include asking for opinions about anything from a company’s products and services to marketing messages and ads. But activities can also include more open ended questions designed to elicit the community members’ ideas about more general topics that spark discussion and inform Communispace’s clients about what is really important in their worlds. For example, a brokerage client might ask a community of investors what they think the stock market’s next move might be, while a consumer products company might ask its members about fashion or culture.

Whatever the situation, Communispace is helping its customers gather the “Voice of the Customer” from which flow the serendipitous ideas and insights that enable a company to sure handedly make decisions about products, features, services, messages, timing, and much more.

For their efforts, community members get an occasional gift certificate from Amazon.com or a similar spiff. But as one executive customer from Charles Schwab recently said, “The members are not doing this for the rewards.” And another executive said, “These people know that their ideas and suggestions are being closely scrutinized, that they are being listened to, and that what they are saying is being considered by our management up to and including the chairman.” Anecdotal information shows that knowing they are being heard is a powerful impetus to many customers and a driving force in the success of customer communities.

### **Analysis and conclusions**

It is already cliché to say that the customer and the marketplace have changed due to the introduction of the Internet. The new access to information that has empowered customers to seek out and get exactly what they want is a net positive, a trend that is not likely to be reversed. But what was once thought to be a sea change largely favoring the customer is now showing signs of equilibration.

The Internet has also opened up many new possibilities for vendors who are prepared to think and act differently to take advantage of the opportunities that Internet based *glasnost* — or openness — offers. One of the principle opportunities the Internet provides vendors is the ability to interact with large numbers of customers at low cost and with a rapidity only dreamed about previously.

Along with an attitude of openness, to successfully take advantage of the Internet to get closer to their customers, vendors will need to come to the party with tools and techniques far different from quantitative segment analysis and generic product delivery popularized in 20<sup>th</sup> century mass marketing. In the crowded markets of the immediate future, vendors are more likely to take a page from the consumer goods marketing playbook, hence the reliance on engaging communities of customers to better understand demand.

The customer community is a marketing and early stage product development laboratory in which vendors can run “experiments” on real world models using the environment to understand demand and most importantly, the customer yearnings that have not yet been translated into messages, products, or services. Such yearnings — and their proper translation — represent a company’s true source of wealth, which, if managed well, will serve as an endless source of innovation and differentiation.

## **End Notes**

<sup>1</sup> Voice of People Survey, “Trust in Global Companies,” World Economic Forum, 31 March 2004. From Urban, Glen, *Don’t Just Relate — Advocate*, Upper Saddlebrook, NJ, Pearson Education, Inc., 2005

<sup>2</sup> Zuboff, Shoshana and James Maxmin, *The Support Economy*, New York, the Penguin Group, 2002

<sup>3</sup> Peppers, Don and Martha Rogers, Ph.D., *Return on Customer*, New York, Doubleday, 2005

<sup>4</sup> Urban, Glen, *Don’t Just Relate — Advocate*, Upper Saddlebrook, NJ, Pearson Education, Inc., 2005

<sup>5</sup> von Hippel, Eric, *Democratizing Innovation*, Cambridge, MA, MIT Press, 2005

<sup>6</sup> Resnick, Paul, Richard Zeckhauser, John Swanson, and Kate Lockwood, *The Value of Reputation on eBay: A Controlled Experiment*. Working Paper RWP03-007 (John F. Kennedy School of Government), July 6, 2002

<sup>7</sup> McDonnell, Fiona, *Identifying the Emotive Customer*, March 30, 2005, Forrester Research, Cambridge, MA

<sup>8</sup> In essence, one grabs a leg and concludes the elephant is a tree, another grabs the trunk and decides it's a snake, etc.

### **About Beagle Research Group**

*Beagle Research Group, LLC, is a consulting and market research organization focused on emerging companies and technologies that will have an important impact on the way business is conducted in the years ahead. Our work is based on professional standards of quantitative and qualitative research which informs all of our publications.*

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