

White Paper



Reinvesting in the Customer

Customers can provide solid input to help vendors in uncertain times, if we let them.

February 2009

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About Beagle Research

Since 2004 Beagle Research has been providing focused market research to our clients, helping numerous emerging companies to gain traction in the market. Whether the client is an emerging company or an established company with an emerging idea, our insights and hands on approach give them the knowledge they need to make informed decisions about their strategies and directions.

On a daily basis a growing group of senior level analysts and consultants helps clients to make informed decisions to effectively compete and succeed in the market. Our clients depend on us to help them sort through issues, develop strategies and lower the risks associated with bringing products to market.

Reinvesting in the Customer

Introduction

Since its inception, CRM has been a tool and an approach that many have said is relatively heavy on management and light on relationship—something that managers use to gain insight into the activities of employees and customers. CRM was introduced during a time when the marketplace was full of emerging companies and their products, and CRM's transaction orientation was right for the times.

Now, many years later, the landscape has changed significantly and transactions are harder to come by owing to multiple issues, including the economy, changes in vendors and their products and, most important, changes in customers and the ways they make purchases.

If the landscape has changed, then the CRM that was originally developed for a different set of assumptions must change with it. In many ways, we see this change happening today with initiatives like CRM 2.0 and Sales 2.0, which are supported by many vendors, customers, and pundits. But the changes we are witnessing—including the incorporation of Web 2.0 technologies and social media—have been driven by tactics rather than strategy and have resulted in a bonanza of point solutions. What is needed now is a unifying theme that brings together many of the original innovations into a cohesive solution set that will drive the next iteration of vendor-customer interactions.

This Beagle Research Group Executive White Paper looks at the multiple issues converging on a new synthesis for CRM. Each market and each vendor may have its own spin on the CRM of the future. This paper focuses on the common points that should be applicable across a broad spectrum of situations.

Market realities

Changing economy, maturing markets, increasing competition

No company functions outside the economy and none is immune from its ebb and flow. According to the writer and business analyst, Geoffrey Moore, in *Dealing with Darwin*, in the last 40 years, the global economy has experienced a significant upsurge from the impact of the technology revolution. Technology—especially good, fast, reliable, and cheap computing—has resulted in many new products and services, and even older products have enjoyed a renewal with the incorporation of automation.

The advent of inexpensive computing power caused a long economic trend that is only now beginning to abate or, more likely, being transformed. During that time—as innovators brought to market not only new products but whole product categories—the process of buying and selling became distorted. With so many new product categories becoming suddenly available, vendors and customers became accustomed to skipping from one early product life cycle to another and sales people sometimes forgot how to sell in later market stages.

The old engine driving innovation—increasing computing power—is reaching a plateau at the same time that customers have become more demanding. In markets that have left the exponential growth phase and entered the long

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Successful vendors in emerging markets certainly have their challenges, but so do their customers

plateau of Main Street operations, there may be fewer vendors compared to the exponential growth period, but each has matured into a formidable competitor capable of selling complete product and service offerings.

The primary challenge for many vendors today is in how to continue innovating to supply mature markets with desirable products and services that are well suited to market demands. An especially demanding part of this challenge includes dealing with shrinking margins as products begin to commoditize and competitors converge on optimal designs, service offerings, and price points.

Shrinking budgets, many products, information overload

Successful vendors in emerging markets certainly have their challenges, but so do their customers. To a degree, the challenges customers face are a mirror image of the issues that vendors face.

Being a customer today is a mixed blessing. There has never been a time when so many good products have been on the market at attractive prices; the Internet has made searching for products and discovering relevant information extremely easy. These factors have combined to produce a buyers' market.

At the same time though, this abundance has also made decision-making harder for the average buyer, regardless of whether the buying situation involves vendors and consumers (B-to-C) or businesses (B-to-B). Several years ago, Harvard Business School professor Shoshana Zuboff observed in her book *The Support Economy* that today's buyers have more choices—a bewildering array of vendors, products, and information to sort through, increasingly limited budgets and less time than ever to make good decisions. Subsequent events have confirmed her thesis.

The challenges that vendors and customers face today can be summarized as follows:

- **Many competitive products.** Today, there are multiple competent products in almost any niche. An abundance of vendors and products both turbo-charge competition and put power and control into the hands of buyers who can end the purchase process at any time and for any reason.
- **Shrinking budgets.** Many companies see their products commoditizing and face significant pricing pressure. They naturally expect when they go to market that the same pressures will apply to the products they buy as well. Moreover, a slowdown in innovation caused by a slow economy and maturing technology trend only exacerbates the problem of shrinking budgets.
- **Information overload.** Multiple products bring multiple sets of information that customers have to weigh in making a selection. Also, product information comes in many forms. In addition to conventional product literature, information is available through Web sites, podcasts, Webcasts, and sales people on the phone or in person.
- **Time constraints.** At the same time that customers have more information to evaluate, they have less time for evaluation. Automation enables companies run very lean, but reduced headcount means each person does more and gives less time to any single task, including making a purchase.

Any of these factors in isolation could reasonably be expected to slow down

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the sales process, but together they converge to form significant barriers. Customers have many ways to learn about a vendor and its products, and the sales process starts long before the vendor is aware of the customer.

Finally, there is the economy. The recent collapse of the credit markets has made making any purchase a challenge. Lack of credit at the enterprise level and prohibitive interest rates for consumers is causing demand destruction. Unless vendors and customers find creative ways to bridge the financing gap, normal commerce will be more or less on hold until financial markets thaw somewhat. As often happens, the current downturn may usher in a period of deflation, which would serve as an incentive for buyers with resources. However, even in such a situation, it will be key for successful vendors to understand the buying motivations of their customers.

Understanding the customer is the key to survival

The last 40 years have been kind to vendors. Although most start-up companies either failed or were absorbed, there has rarely been a better time to innovate around a single idea that has produced so much opportunity and profit. The technology-business trend of the last 40 years has been favorably compared with the railroad era of the late 19th century and the telephone and electric eras of the early 20th century. In each case, a single or small set of innovations caused the rapid development and deployment of massive infrastructure (transportation, telephone and electric grids) that transformed the economy.

However, as these innovations gained acceptance and became parts of daily life, vendors discovered two things. First, their original strategic innovations had to be followed up by numerous tactical innovations. Second, only customers with their experience in using the original innovations could provide the necessary insight that vendors needed to enhance their offerings and their businesses. It is a timeless lesson and one that is highly relevant today. Therefore, it is critical that companies not lose sight of their number one investment: their customers.

Reinvesting in the customer

Beyond the success of the first product offering, many vendors discover that their customers want solutions that go well beyond the utilitarian. With basic functional needs satisfied, customers seek out solutions that, in one way or another, enrich their lives.

Customers can provide the necessary input into the design, development and marketing processes that helps vendors to maintain leadership positions through innovation. The innovation now is not on a par with the original work that launches markets and companies. Instead, it is an internal exploration that helps companies adapt and refine the original "big idea" so that it continues to occupy an important place in the customer's life.

Co-creating value using social media

The challenges facing vendors and customers alike can be summarized simply as finding ways to work together. To progress beyond a version 1.0 product with a follow-on product that customers want to buy, vendors need customer

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input. At the same time, customers frequently look for ways to influence their vendors' product development decisions.

Throughout modern business history, efforts to bring vendors and customers together in collaboration have been stymied by time and costs. Conventional data-gathering strategies like focus groups and surveys either take too long, are expensive or do not capture a big enough data set to be statistically relevant. New efforts using the Internet and social media have broken through these restrictions and offer hope that vendors and customers can at last influence each other in time frames that are more relevant to product life cycles.

For example, services like salesforce.com's IdeaExchange have provided common meeting ground for customers to trade ideas about a vendor's products and services. More important, a meeting place like this on the Internet can assure the vendor that a relevant number of customers have a chance to add their thoughts, which serves to deepen and enrich any idea. The information offered by customers is scored by tracking simple popularity, and the result is actionable information for the vendor.

The importance of this approach cannot be overrated. Unique insights derived from social media solutions can be translated by each vendor into unassailable differentiation. Used appropriately, social media can help vendors achieve authenticity in their products and services.

Effective use of customer input

Providing mechanisms for vendors and customers to exchange ideas can be a valuable addition to the front-office technology suite because these approaches build trust and loyalty as well as better products and services. There are numerous ways that customer feedback data can be put to work, and different companies will find their own preferred uses for it. Customer feedback provides two fundamental ways to improve relationships: customer intimacy and operational excellence.

Customer intimacy

In a customer intimacy approach, the most frequently discussed option—at least in CRM circles—is enhancing the customer experience, which has become virtual shorthand for customer intimacy. Customer experience can lead to intimacy, but it is not a substitute. There are additional tools to consider that can help a vendor increase customer intimacy when an experiential approach is not appropriate and multiple innovation tools to consider. Types of customer intimacy approaches include these:

- 1. Customer experience.** Pine and Gilmore raised our collective consciousness about customer experience with their book *The Experience Economy*, which detailed how some innovative companies enhanced an underlying product or service offering by turning it into an experience. The classic example of a customer experience is the difference between purchasing a cup of coffee (brewing coffee is a service) and having a cup of coffee custom made and then enjoying it in a café setting.
- 2. Product line extension.** In product line extension, a vendor will seek to add differentiated products with minimal enhancement to the core offering, such as innovative packaging. The objective is to deliver products

Innovating through customer intimacy

Through the salesforce.com IdeaExchange, customers can offer feedback using a community mechanism that ensures suggestions are seen and voted on or commented on by others. The result is concentrated and actionable information, not abstract field data more typical of a small focus group.

Dell Computer (www.ideastorm.com) and Starbucks (www.mystarbucksidea.com) each use salesforce.com's IdeaExchange, which has let them fine-tune products and services to meet customers' aspirations. In many cases, these aspirations remain invisible to other data-gathering strategies, so the collaboration gives the vendor a glimpse into the minds of its customers that is inaccessible otherwise.

that are increasingly better suited to the needs of customers in a specific market niche. Apple's approach to the iPod is a good example of product line extension. Originally, Apple offered one type of iPod, but when it proved popular, the company responded with multiple versions that focused on different lifestyle needs such as the iPod nano for athletes.

3. Enhancement. Product enhancement strategies add value—defined as making the product or service more relevant to a person—without increasing costs and without extending the product line. For example, adding applications to cell phones.

4. Marketing. This approach can take a lot of forms, especially with branding and reinforcing customers' original decision to purchase. Branding can also encourage prospective customers to join an exclusive club of members, providing a kind of authenticity. Some credit card companies promote a club-like atmosphere for members, for example.

Operational Excellence

Sometimes it is not possible or necessary to develop customer intimacy.

For example, in a high-volume supply chain, innovation around operational excellence that drives down costs, enhances reliability or simply makes a company easier to do business with can provide sufficient differentiation.

The primary ways to achieve operational excellence include engineering and process improvement.

1. Value engineering. One way to deliver on the pressure to drive down prices is through value engineering or finding ways to extract cost from the core product offering. It can be achieved by manufacturing improvements such as longer production runs, substituting less expensive materials or altering packaging to name a few approaches. In value engineering, the product remains more or less the same while the cost continues to drop.

2. Integration. Very often value can be added to a product by introducing an additional feature or function. This approach might enable the vendor to charge more for a short period, but eventually the combined product also faces commoditization. A good example of innovation through integration is the mobile phone. Over the years, mobile phones have taken on additional functions such as GPS, text messaging, Internet browsing and much more. Each addition has added value to the devices and the underlying services, enabling vendors to keep prices relatively stable (rather than declining through commoditization).

3. Process. Many companies find that they can improve business performance by improving their customer-facing processes and making it easier to do business with them. Process improvements that make it easier for customers to access information, place orders and track shipments online without the assistance of customer service representatives are examples of this approach.

4. Migration. At some point every product faces obsolescence, which may cause the vendor and customer to part company as the customer seeks out an improved replacement. Innovating around the migration highlights the important but often overlooked point that products may obsolesce, but relationships can and should evolve. Vendors that create migration strategies

have a better chance of retaining their customers and capturing customers from competitors.

Conclusion

Significant economic changes in finance and credit and a peak in an innovation trend that started with the introduction of the CPU on a chip are causing significant changes in many markets. There is no need for excessive concern or panic because in large measure, the markets are doing what markets have always done: arranging themselves to best meet the challenges of the current era. The tools that served vendors and customers in the past will need modification to support changes in business processes going forward.

Although computer technology innovation at the raw horsepower level is peaking (at least temporarily), much opportunity for innovation exists if vendors and customers can find new and better ways to work together. In an era of new introductions, vendor-customer collaboration was less of an issue because innovation was ongoing and driven by entrepreneurs bringing to market whole categories of new products and services.

Today, however, collaboration is needed to drive innovation at more precise levels that better relate to customers' advanced needs. Now that basic needs have been covered in many formerly emerging markets, customers are naturally seeking aspirational benefits that many vendors may not fully understand or be accustomed to delivering.

Social media and social networking concepts have come of age in the front office because the marketplace has changed in significant ways. Competition is tougher and customers are more discerning today, with the result that vendors must have a finely tuned understanding of future demand to succeed. Social technology added to customer-focused information systems can help vendors capture the insights they need to meet today's challenges.

Social technologies provide a missing link that makes affordable and timely customer outreach possible for vendors and brings customers into closer orbits with them. Although social technologies alone are not a panacea for improving customer relationships, they do make it possible for vendors to see into the minds of customers. And armed with better information, vendors can make more intelligent decisions about product mix and approach.

There are already numerous examples of vendors carving out secure niches that cater to aspirational needs that customers happily support. The challenge for CRM now is to incorporate the tools needed to capture customer input. This development will transform CRM from a largely transactional tool to a tool set that also enables rich information sharing among all parties.



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