Re-envisioning customer value

A report from the Economist Intelligence Unit
Sponsored by SAS

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Preface

Re-envisioning customer value is an Economist Intelligence Unit report sponsored by SAS. It delves into the implications that new measures of customer value carry for businesses, investigating the opportunities and risks that companies face.

To develop the report, we conducted in-depth interviews with business executives and thought leaders. We would like to thank all interviewees for their time and insight.

The Economist Intelligence Unit conducted the analysis and wrote the report. The findings and views expressed in the report do not necessarily reflect the views of the sponsor. Neil Baker is the author of the report, and Brian Gardner is the editor.

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Executive summary

The emergence of social media has transformed the potential for companies to build deep and profitable relationships with their most valuable customers. However, by and large, the emphasis remains on the potential. Many organisations have experimented with new forms of customer engagement. They have increased sales, reduced service costs and improved innovation. Yet few—if any—have moved out of an experimentation stage to implement the kind of enterprise strategy changes necessary to fully realise the business opportunities offered by the spread of social media. Through an exploration of the changing face of customer valuation as social media become more widespread, this report finds:

- Traditional measures of customer worth are at best incomplete and at worst misleading. How much a customer spends is just one of several ways that clients engage with companies. Applying conventional methods, which identify their most valuable clients by their transaction activity, to the social media arena can wastefully misdirect a firm's customer engagement, conflating its customers' monetary value with their referral or influence value. Appropriately understanding this arena can aid businesses by identifying degrees of client influence, gaining a deeper insight into customer preferences and capturing valuable product feedback.
- Organisations must learn to distinguish between noise and valuable business information in order for novel forms of customer valuation to significantly enhance their profitability. Fresh insights can be drawn from the widely distributed customer behaviour that takes place in social media and from the digital trails within company systems by leveraging rigorous analyses. However, many current metrics do not necessarily yield actionable intelligence and tracking to them too closely can potentially lead firms down the wrong track.
- Senior executives should holistically integrate customer engagement across their company's departments to capitalise on new insights into customer valuation: this requires organisational flexibility and the relinquishing of some measure of control. To achieve this, social media need to be understood and employed as tools in the service of wider business aims, not siloed as a discrete functional area.
- Organisations must tread carefully, however, when extracting value from social media engagement, to avoid appearing intrusive or inappropriate to the very customers and social networks with which they are trying to interact. Moreover, a widespread inadequacy of formal governance policies exposes many firms to significant risks as they seek to derive value from social media—not only reputation hazards but legal compliance issues and the protection of their intellectual property.

Introduction

Social media facilitate the creation and exchange of user-generated content; these internet-based technologies are still in their relative infancy but they form part of a much deeper change in the business environment. The ubiquity of social media can, over the next five years, both drive and enable extraordinary changes in the way organisations function. The businesses best able to capitalise on this movement will be the ones that understand how the nature of customer value is different in a social media environment, how to identify the most valuable customers, and how to engage with them effectively. None of these three tasks is easy, but the leading thinkers and business people featured in this report are pointing to the way ahead.

The first report in this series, *Redefining customer value: Corporate strategies for the social web*, showed that companies are aware of the need to rethink customer value, but are unsure of how to respond in a systematic way. This second paper examines the extent to which companies can refine their conception of customer valuation by leveraging the information drawn from social media interactions. This paper explores the implications that integrating new understandings of customer value can carry for business competitiveness. It examines some of the practical considerations for using such insights to better engage with customers, highlighting the risks and opportunities that companies face.

From critics to champions

“If we are going to start looking at social media in terms of quantifiable numbers, then we need to start understanding how much our customers are worth, and this means looking at more than just how much a customer spends.”

Jacob Morgan, social media consultant.

When Jacob Morgan was confronted with particularly shoddy service at his local branch of FedEx Kinko’s, he put a video about the encounter on the internet. Being a social media consultant, Mr Morgan didn’t just complain about the bad service, he criticised FedEx for the poor brand experience. Thousands of people watched the video, many of them adding their own comments about poor customer experiences with FedEx Kinko’s. But within 24 hours a FedEx employee emailed an apology and asked if the company could use Mr Morgan’s video to train its staff. This turned Mr Morgan from a vocal critic of the firm to a valuable evangelist; he posted another clip, this time praising FedEx’s engagement with social media.

While the email won back Mr Morgan’s custom, that was just a fraction of its likely value to the company. He now recommends its services and his videos are used—at no cost—in FedEx staff training. “So how much am I worth to FedEx?” Mr Morgan asked. “If a competitor were to try to steal me away, what should FedEx do to keep me?”

The question illustrates a challenge that all organisations face as they move their engagement with social media out of the experimental phase. A simple, human interaction by a staffer showing initiative can turn a situation around. But with millions of people posting Tweets, YouTube videos and blog comments every day, how can an organisation target its individual interactions to the customers with the highest potential value? And can the value of those relationships be measured in a way that supports a business case for investment? As Mr Morgan says, “If we are going to start looking at social media in terms of quantifiable numbers, then we need to start understanding how much our customers are worth, and this means looking at more than just how much a customer spends.”

Relationships with customers are changing

Businesses that want to rethink customer value need to understand that the relationships between organisations and their customers are changing fundamentally. Social media are accelerating this trend, but are not its primary cause.

"The customer has changed," says Paul Greenberg, a customer management consultant and author of *CRM at the Speed of Light*. Changes in the boundaries between home and work life, the blurring of the "real" and online worlds, how people communicate with each other, the extent to which they trust organisations, how they expect businesses to behave, the levels of service they demand—these all play a part.

Social media massively amplify consumers' capacity to share experiences—both good and bad. "Trust and influence change in the world of social media. Everyone has a platform now."

Chris Brogan, co-author of Trust Agents.

As people use online tools to build and maintain their social connections, they are increasingly willing to welcome their favourite, trusted brands into these networks. This creates an opportunity for organisations to build the kind of deep customer relationships that would have once been beyond their capability.

Pioneers in social media engagement, such as Zappos, an online retailer, have been quick to spot this potential. "We want to break down the barrier between company and consumer," explains Aaron Magness, Senior Director of Brand Marketing and Business Development at Zappos Development, Inc. "We want a local community mindset, so it feels like I'm buying from my friend's store. It allows us to get deeper into the relationship, and further away from the attitude that customers are just a wallet on legs."

People have always talked to friends and family members about their product or service experiences, recommended their favourite brands, and given organisations feedback about how to improve. Social media massively amplify consumers' capacity to share experiences in this way—both good and bad. "Trust and influence change in the world of social media," says Chris Brogan, co-author of *Trust Agents*. "Everyone has a platform now. In the old days, if you complained about a company, who would listen? Their customer service people? If you got a letter into a newspaper, it'd be in the section full of cranks and crabs."

Given their apparent inability to control conversations on platforms such as Twitter and Facebook, organisations often react to social media as a disruptive force—something they must monitor for damaging outbursts of negative comment, rather than engage with as a source of potential value. But Brian Solis, a customer engagement expert, believes that organisations can exert more control than they think.

Social media make customer conversations visible, giving savvy organisations an unprecedented ability to listen, learn and engage, Mr Solis argues. Those that understand how to do this can shape and steer the conversation, he says, accessing a vast, largely untapped pool of customer value. Insights derived from these customer interactions can be used not just to sell more products or services, but to reduce service costs, attract other customers, collaborate on innovation, share knowledge and transform business processes. In short, according to Mr Solis, they can break down the barriers between organisation and customer, building a new kind of company.

Widening customer value through changing business practices

As organisations seek more collaborative relationships with their customers, the purchase of a product or service will, increasingly, be just one of many ways in which a customer might add to—or detract from—business value. New measures of value are needed so that organisations know how to re-tool their business practices and how best to direct their engagement efforts.

In a social media context, measures of customer value that focus solely on transaction activity capture only a fraction of an individual's behaviour and potential value.

At Procter & Gamble (P&G), a consumer goods giant, for example, customers have helped to contribute thousands of new product ideas through its award-winning open innovation programme, Connect + Develop. Over 50% of its products now involve significant collaboration with outsiders. The company also runs several social media communities built around its products—its mums network, Vocalpoint, has over 600,000 members—and uses customer insights to operate a supply chain policy called "pricing from the shelf back", whereby it finds out what customers are willing to pay for a product and then works out how to provide it at that price. None of these interactions would be reflected in traditional customer ratings, but they clearly enhance the customer's value to the business.

A problem with reworking standard measures of customer valuation to include social media value is that, whereas purely transactional metrics are based on clear, quantifiable inputs, social conversations are more messy and unstructured. Nonetheless, it is possible to capture social media activity "in the wild" and submit it to quantitative analysis, says Mr Solis.

He recently analysed 50,000 of the most active people who follow coffee chain Starbucks' activity on Twitter. The results, according to Mr Solis, provided new insights into what the company's customers are interested in and what motivates them. "The difference between monitoring and gathering intelligence allows Starbucks to now identify relevant networks and introduce personalised campaigns to further spur advocacy and loyalty," he says.

Michael Wu, PhD, is a scientist of analytics and an expert in the calculation of influence. According to Dr Wu, it is easy to work out how many people someone can reach across their social networks, how often their messages are forwarded and how many products they review but that only tells you their potential influence, not their actual influence, making the business value of such data limited. He has developed a model aimed at actual influence that crunches six different classes of variable, such as an individual's domain expertise and the extent to which they are trusted. If you want to know who is

Influence matters: “Seeding an online word of mouth marketing campaign with people identified as influencers is 45% more effective in ROI terms than random seeding.”

Michael Wu, PhD, scientist of analytics and an expert in the calculation of influence.

the most influential person on Twitter, when it comes to discussion about the iPhone 4, Dr Wu says his software can give you a top-five ranking. His influence metrics identify how influential someone is on a specific social media channel. Within this framework, he says seeding an online word of mouth marketing campaign with people identified as influencers is 45% more effective in return on investment (ROI) terms than random seeding.

A team at the Centre for Excellence in Brand and Customer Management at Georgia State University, meanwhile, is developing a different approach. Its aim is to produce metrics based on four key ways in which a customer can provide value to a business. These are the extent to which they will buy products and services (monetary value); how well they respond to incentive schemes aimed at encouraging them to bring in new customers (referral value); their social media influence (influence value); and their ability—and desire—to contribute feedback and ideas to the business (knowledge value).

The team’s field research demonstrates that use of its customer metrics can unlock valuable business insights, notes V. Kumar, PhD, the centre’s executive director and Lenny Distinguished Chair Professor of Marketing. For example, typically when companies want to increase their referral business, they tend to target offers at their most profitable customers, “but our metrics show this is a poorly targeted approach to customer engagement,” says Dr Kumar. Customers scoring the highest on his measure of referral value are those in the middle of the customer lifetime value rankings, not those near the top. His impression of the analysis is that the middle-ranking customers are hungry for recognition and are connected to bigger networks, while those near the top are too busy and do not care for discount offers because for them time is more important than money.

Later this year Dr Kumar will unveil a kind of uber-measure that combines insights from all his customer metrics. He suggests that use of the right metrics to target a social media programme can more than double its ROI.

When and if such metrics will be deployed widely outside of academia remains to be seen. For now, even if an organisation can measure customer value more accurately, how easily can they utilise that information?

Serving customers more profitably?

Better insights into customer value do not necessarily lead to increased profitability. Having redefined what customer value means in a social media context, and then used new metrics to identify valuable customers, organisations next need to understand how best to interact with these customers.

The traditional aim of managing customer relationships is to engage with customers in the most profitable way possible. This is commonly confined to segmenting the customer base, with different products and service levels offered to customers in each segment, according to an evaluation of their likely contribution to profit. High-value (or high-spending) customers might be offered premium levels of after-care service, for example, with cheaper service channels developed for lower-value (lower-spending) customers.

Identifying the key social media influencers is relatively easy, compared to the challenge of engaging meaningfully with these individuals over the long term.

But when new determinants of customer value are added to the mix—such as a person's influence in a social media network—a traditional approach starts to break down. Indeed, Dr Wu says the process of identifying an organisation's key social media influencers is relatively easy, compared to the challenge of working out how to engage meaningfully with these individuals over the long term.

Here, Dr Wu warns, the customer management tactics of traditional customer relations management can backfire. Some businesses have offered financial incentives or differentiated services to high-value influencers in the hope that it will encourage them to spread the good news about a brand. This might work in the short term, but it is "a non-repeatable strategy", he notes. Once it becomes known that an influencer is receiving benefits from the business, people in their network start to trust them less, undermining the influence that made them valuable.

So how can an organisation engage with influencers effectively? "The only repeatable strategy I know is value co-creation," says Dr Wu. For example, build an online community that amplifies their voice, provides access to the appreciation of others and gives them a forum for product collaboration. "That's the kind of thing that motivates them," he adds.

This is what Intuit, an accounting software company, does through its Inner Circle community. Some 25,000 customers use a host of social channels, blogs and forums to give the company product feedback and engage with Intuit staffers. The company also has an outreach programme to identify Twitter users with an interest in its products and invites them to join the community. Because the Inner Circle has grown so large, Intuit has used polls and surveys to segment its members, enabling it to direct questions to different groups of users, which generates highly focused feedback.

Initially, the company was cautious about what information could be released into the community, but over time those controls have been eased. “A lot of the information that has traditionally been available only to customer service agents is now being released to customers through web self-service,” says Mr Greenberg. This significantly lowers cost of service.

GiffGaff, a British mobile-phone company, has made customer collaboration an integral part of its business model from day one: its brand tag-line says it is “the mobile network run by you”. The company’s customer support community has over 200,000 users and delivers three million page views per month. At least 50% of queries are answered by other customers and 95% are answered in less than one hour, according to Mr Greenberg, who has studied the company. Customers are invited to submit ideas for business improvements; those that are implemented are listed on its website. There have been over 100, including customer-built apps that enable account servicing via an iPhone. To encourage engagement, GiffGaff rewards participating customers with Kudos points. These can be redeemed for phone credit or donated to charity.

To engage with customers in this way, organisations need flexibility and a willingness to relinquish some control. This may well conflict with their existing policies on brand protection, which limit who is allowed to interact with customers, and their policies and standard procedures for customer management. “Meeting the social customer’s needs and expectations requires a high level of organisational agility,” says Mark Tamis, a customer engagement consultant.

Sustaining scalable customer valuation

Richer customer insights can increase value across business operations, but only if those insights are shared and made meaningful. While some organisations have experimented successfully with tactical implementations of "socialised" customer relationship management (CRM), almost none has scaled their efforts to a "holistic", enterprise-wide strategy, says Mr Greenberg. "That means you can have CRM and you can have social media, but that doesn't make it social CRM. There isn't necessarily integration."

> "All business functions can have an impact on the overall customer experience." This goes beyond the traditional customer-facing silos of marketing, sales and support; traditionally, "back-office" departments such as finance must recognise that they have a role in customer engagement.
>
> *Mark Tamis, customer engagement consultant.*

Scalability of customer value analysis and in particular of subsequent engagement activity based on that analysis is a huge challenge, agrees Mr Solis. While organisations need to develop their monitoring and listening capability, "The big problem with scalability is what do you do with those insights? What do you feed them into? How do you act upon them? This is where social CRM starts to break down."

Mr Tamis points out that the kind of intelligent, responsive, "human" behaviour that organisations need to demonstrate does not translate well into repeatable business processes. Moreover, it is likely to require action beyond the traditional customer-facing silos of marketing, sales and support; traditionally, "back-office" departments such as finance must recognise that they have a role in customer engagement. "All business functions can have an impact on the overall customer experience," says Mr Tamis.

To make engagement scalable and sustainable, organisations need to move their focus away from process efficiency and concentrate instead on meeting customers' desired outcomes, according to Mr Tamis. This means giving staff the tools they need to collaborate, both with customers and with their colleagues. "We have to give them the tools to connect and communicate, but we also have to help them change the way in which they work," he says. Or as Mr Solis puts it, "The question is this: How do we better get business units to collaborate internally so that we can better collaborate externally?" Linking across business functions is vital in order to direct the most suitable employees to address customer needs.

Best-Buy, a technology retailer, is an example of how organisations can break down their internal barriers. Through its Twelpforce project, any employee from across the business can respond to customer questions posted on Twitter. Thousands of employees take part, ranging from social marketing experts at headquarters, to technical specialists, to front-line store workers. When they join the programme, staff are given minimal instructions, the only strictures are that they do not talk about private company information and do not ask for personal details. Beyond that, they are encouraged to be themselves and to engage in conversation. "It's marketing that isn't marketing," said Twelpforce co-creator, John Bernier, when the project launched. Not only do customers get fast assistance at low cost, but the monitoring systems the business has built in to Twelpforce give it a finger on the real-time pulse of customers.

Zappos' approach to customer engagement is effective and will scale, according to Mr Magness, because it is centred on clear values. Social media interactions work when they are "real, when they create a personal connection," he says. "You need to take a step back and say we want to form personal connections with our customers: there are myriad ways of doing this."

However, giving employees a green light to engage with social media is not without its dangers. In a recent guide to social media, The Institute of Internal Auditors (IIA) ranked it as one of the top nine risks that ought to concern executives.

"Social media are often delegated to junior staff members in an organisation because there is the perception they grasp its value," said Mike Jacka, senior audit manager for Farmers Insurance and a co-author of the guide—*Auditing Social Media: A Governance and Risk Guide*. "In actuality, while they may understand how to deploy the tactics, they lack business acumen and are not privy to the highest levels of knowledge or strategy in their organisation necessary to centre social media efforts around business objectives."

Organisations should also be aware that, while the monitoring and analysis of customer interactions can generate valuable new insights, organisations can damage their brands if they engage in activity that customers find intrusive or inappropriate.

Other risks identified in the guide include legal compliance and intellectual property protection. Appropriate policies and procedures play a valuable role in mitigating such risks, the IIA guide stresses. Yet according to its research, only 38% of organisations that use social media have a policy in place to govern activity. And of those that do have such a policy, 71% do not conduct formal training or promote policy awareness.

Organisations should also be aware of another perhaps more subtle risk: while the monitoring and analysis of customer interactions can generate valuable new insights, organisations can damage their brands if they engage in activity that customers find intrusive or inappropriate.

While individuals might be increasingly willing, as Mr Magness puts it, to treat their favourite brands as if they were friends, brand interaction is not their primary reason for using social media. As Mr Solis says, "They are not there to connect with you; they are there to connect with their friends and family. So how are you going to earn a connection?" Those that fail to "earn a connection" run the risk of coming across like eavesdroppers.

Facebook, for instance, has had to respond to frequent member complaints about how their interactions are being commercially exploited. It is hard to predict customer objections in advance, says Mr Magness: as their concerns are very fluid. While some people are very protective about their transaction history, others are happy to have credit card purchases publicised online. Zappos tries to manage the risk by being transparent about how it gathers and uses information. "Over time, we will see more people becoming comfortable about sharing more and more information and that will allow us to interact with them more efficiently, giving them relevant information," he expects. "But the transparency issue will not go away."

Zappos is also circumspect about measuring the impact of its customer engagement strategies. "You obviously want to be able to track the effect of what you're doing, but you have to be careful not to get too focused on the metrics," warns Mr Magness. "You can try to game the system a little too much." Zappos expressed explicit concerns that tracking metrics might just as well lead them astray as provide useful business intelligence. This highlights lingering corporate concerns about basing business strategy decisions on unfamiliar, bounded information. As Mr Greenberg notes: "Everything is measurable at some level. The problem is, are you measuring the right things?"

Establishing return on investment

Developing new ways of understanding, analysing and engaging with customers requires investment. Organisations have shown that they are willing to experiment with social media projects, but significant, enterprise-wide change requires a compelling business case. "An empire in social media can't be built on the back of a few Excel spreadsheets," says Mr Brogan.

Trying out different ways of approaching customer engagement is one thing; to move out of that experimental phase, to become the kind of collaborative, adaptive organisation that social media make possible, will require top-down change, argues Mr Solis. "But to get support from the top, you don't need a conversation about social media, you need a conversation about competing for the future," he says.

Procter & Gamble only started to become an exemplar of customer engagement when a new chief executive, A.G. Lafley, made it clear that the business had to change. Having spent nearly 30 years working for the company he gained first-hand experience of its heavily siloed structure. Mr Lafley, while CEO, made a focus on the customer experience his priority. "We have to create a great experience every time you touch the brand," he said at the time. He added that some of P&G's businesses could not wait to set out on the new direction, but others were less certain.

That reluctance is easy to rationalise. Collaboration and engagement require a relaxation of control, which is an undoubted risk. Companies are rightly careful about protecting their brands. The downside is very real, while the potential wider business benefits of deeper customer engagement have been hard to quantify.

Mr Solis believes that the kind of metrics that organisations are capturing now are not sufficient to drive the degree of change needed: "You have to show your top executives, through business language, business numbers and real concrete data, that there is an opportunity here that they must consider. It's going to take more than mentions of your brand, or sentiment, or share of voice."

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Some of those metrics are emerging. Dr Kumar says his soon to be published research shows how effective customer engagement can boost a company's market capitalisation by more than 30%. This is based on data from two industries in which his team has been testing its ROI model. How such measures make the transition from academia to the boardroom may determine which firms will lead in this field.

Conclusion

Customers nowadays want a different kind of relationship with the companies whose products and services they buy. This makes the challenge of effective relationship management far more difficult. The advent of social media multiplies the challenges, but at the same time it creates an extraordinary opportunity for companies to understand and work with their customers in mutually beneficial ways. Those that grasp the potential, and embrace social media with a scalable and sustainable strategy, will secure a significant competitive advantage over their rivals. In doing so, they must keep in mind the following:

- The advent of social media deepens the ways in which customers can add value to a business. Influence, referrals, feedback and transactions have always played a part in customer value, but these factors can be tracked rigorously in the social media sphere.
- "Real world" marketing concepts such as referral and word of mouth are fundamentally different across social media. New measures are needed to assess campaign success.
- Many social media metrics, for sentiment and influence, may indicate "noise" rather than value. However, while social media are unstructured and messy, such interactions can be captured profitably when submitted to effective analysis.
- Identifying which customers are most valuable is one challenge; knowing how to engage with them is another. Traditional approaches are inadequate and may even backfire in a social media context.
- Customers want "human" engagement, which is hard to scale. A sustainable approach is to set clear values and empower staff to interact. However, this strategy carries risks which firms may need clear policies and employee training to mitigate. To realise a wider range of customer value, firms need to promote greater co-operation across business units, leveraging the full range of staff expertise to serve distinct client needs. Resolving these challenges requires effective management and substantial organisational flexibility.
- Experimentation is fine, but real change requires top-down support. The business case for investment should be about the extent to which new customer valuation insights can help to re-engineer the organisation to compete more successfully. This means integrating customer engagement across the organisation, not developing a silo directed at social media.

Whilst every effort has been taken to verify the accuracy of this information, neither The Economist Intelligence Unit Ltd. nor the sponsors of this report can accept any responsibility or liability for reliance by any person on this white paper or any of the information, opinions or conclusions set out in the white paper.

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