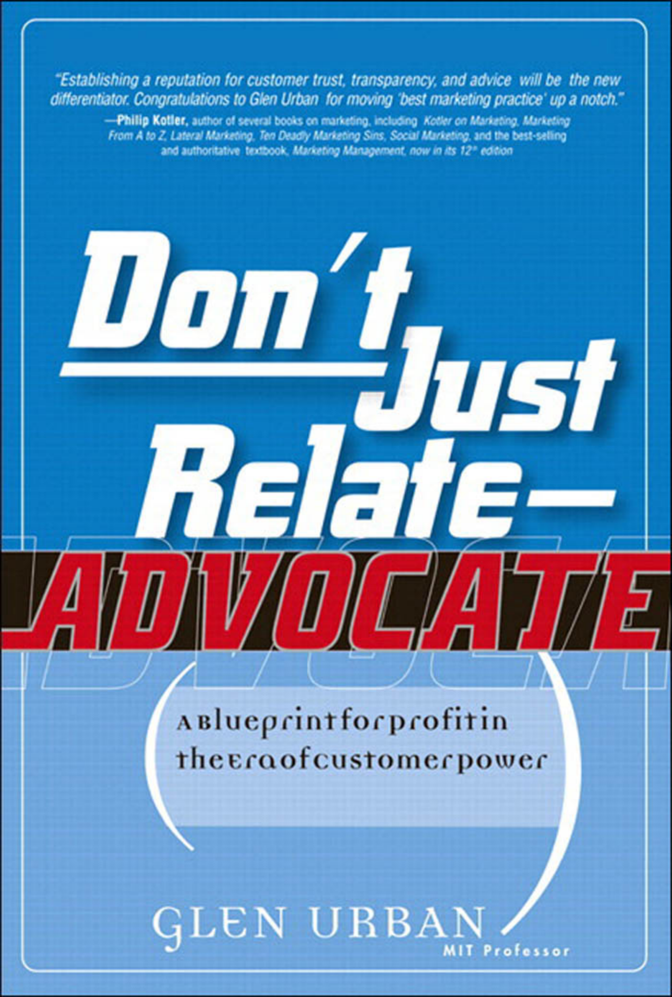

"Establishing a reputation for customer trust, transparency, and advice will be the new differentiator. Congratulations to Glen Urban for moving 'best marketing practice' up a notch."

—**Philip Kotler,** author of several books on marketing, including *Kotler on Marketing, Marketing From A to Z, Lateral Marketing, Ten Deadly Marketing Sins, Social Marketing,* and the best-selling and authoritative textbook, *Marketing Management, now in its 12th edition*

Don't Just Relate—ADVOCATE

a blueprint for profit in the era of customer power

GLEN URBAN

MIT Professor

DON’T JUST RELATE—ADVOCATE!

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DON'T JUST RELATE—ADVOCATE!

A Blueprint for Profit in the Era of Customer Power

Glen Urban

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Here is a list of credits by research projects and groups. I hope I have not omitted anyone who should be on this list—if I have I apologize and thank you. So let's roll the credits!

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Design and testing of a trusted advisor and finding opportunities for new products by listening to the dialogue between a virtual advisor and a real customer.

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Statistical analysis of 25 Internet sites based on responses from more than 6,000 respondents to identify determinants of trust.

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Two year study of effects of trust and advocacy programs on trust, consideration, preference, dealer visit, and purchase of new autos.

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About the Author

Glen Urban is a leading educator, prize-winning researcher specializing in marketing and new product development, entrepreneur, and author. He has been a member of the MIT Sloan School of Management faculty since 1966, was Deputy Dean at the school from 1987 to 1992, and Dean from 1993 to 1998.

Urban's research focus is on management science models that improve the productivity of new product development and marketing. For example, in a methodology he devised called Information Acceleration, he uses multi-media computer technology to simulate future sales of products such as cars, computer systems, telecommunications, and drugs.

Information Acceleration emerged from Urban's earlier groundbreaking work in premarket forecasting for frequently-purchased consumer (nondurable) goods called Assessor. Since the Assessor concept publication, it has been used to forecast the success and profitability of more than 3,000 new consumer products around the world. Dr. Urban's recent research is to develop a trust-based marketing system on the Internet. An extension of the Information Acceleration research, the system uses pickup trucks for a prototype Web site that integrates attribute screening, expert advice, collaborative filtering, and community interaction. This is being extended to understanding how the click stream from such an advisor/customer dialogue can be used to discover unmet needs. Finally research is underway to find the determinants of trust on the Internet and design a real-time adaptive experimentation system to increase the levels of trust on a Web site.

Trained initially in engineering and business—earning a BS in mechanical engineering in 1963 and an MBA in 1964, both from the University of Wisconsin—Urban went on to earn a Ph.D. in marketing at Northwestern University in 1966. He is co-author of six books, including *Digital Marketing Strategy* (2004), *Design and Marketing of New Products* (second edition, 1993), *Advanced Marketing Strategy* (1991), and *Essentials of New Product Management* (1986). He has also published more than 30 articles on premarket forecasting of new products, test marketing, product line planning, leading-edge users in new product development, and consumer budgeting. His papers have won several prestigious awards, including two O'Dells—in 1983 and 1986—for the best papers published in marketing research. In 1996 he received the American Marketing Association Paul D. Converse Award for outstanding contributions to the development of the science of marketing, and the Journal of Marketing award for best paper in that year. In 1999 he was winner of the American Marketing Association and The Wharton School of the University of Pennsylvania Charles Coolidge Parlin Award for recognition of a body of work in marketing research. In 2000 he presented the Wroe Alderson Lecture at the Wharton School.

With two other researchers, Urban founded Management Decision Systems, Inc., a marketing consulting firm that merged with Information Resources, Inc. in 1985. He also co-founded Management Science for Health and its spin-off John Snow, Inc., both consulting firms specializing in international healthcare and family planning that have grown to several hundred employees worldwide. He co-founded Marketing Technology Interface, Inc., a company that uses multimedia computing to support strategic new product design, which merged in 1993 with Mercer Management, a consulting firm. In 1998 he co-founded InSite Marketing Technology, a software firm for trust-based marketing on the Internet (sold to Silknet in October 1999). His newest firm is called Experion Systems and was founded in December 1999.

CHAPTER

1

Now Is the Time to Advocate for Your Customers

What would you do if your customers knew everything about your company and your competitors' products and services—even your disadvantages? The rise of the Internet enables your customers to find third-party information about your products, ratings of your products, people who was ever dissatisfied with your products or services, and the same full information on your competitors' offerings. On the Internet, your company, your biggest competitor, and the smallest unknown upstart competitor are the same distance from the customer. Each is only an online search away. The Internet has enabled an unprecedented increase in consumer power!

Customer power is growing, and you must decide what to do about it! I propose that you advocate for your customers and earn their trust. In this book, I will show you why you should do this, how you can do this, and what other leading edge companies are doing in this arena. In taking my own advice and advocating for my readers, I will also explain how you can tell if trust and advocacy are not right for your company.

Already some forward-looking companies are pursuing customer advocacy. They are providing customers with open, honest, and complete information—and then finding the best products for them, even if those offerings are from competitors. In short, they are truly representing their customers' best interests, essentially becoming advocates for them. The strategy is this: If a company advocates for its customers, customers will reciprocate with their trust, loyalty, and purchases—they will advocate for you now and in the future. Your firm can then command higher prices for its products and services because many customers will be willing to pay for the extra trusted value and the superior products you will offer. With trust, customers will increase the number and range of products they buy from you. Finally, when people trust your company, they will often tell others about it, helping to reduce your costs for acquiring new customers. The marketing paradigm is shifting, and you should too. Advocate for your customers to find business success in an era of customer power!

WATCH OUT FOR GROWING CUSTOMER POWER!

New technologies such as the Internet provide easy access to tremendous amounts of information, and people have been taking advantage of that to become smarter shoppers. They are using digital technologies to gather information, to find competing products, and to talk to other customers. Increasingly, they are using the Internet to avoid pushy marketers and to help them make their own purchasing decisions. The Internet is a great enabler of customer power. What many hoped would happen with the Internet is actually occurring, and it will change how you do business.

The five proven sources of increased customer power are

1. **Increasing access to information:** Customers now have access to information about a company and its products from a multitude of sources. From ConsumerReports.org for third-party information to Amazon.com for customer reviews and eBay for seller ratings, consumers now enjoy much greater access to independent information about a company's products and services. For example, more than 64% of car buyers now use the Internet to research car

models, features, and prices.[1] Sixty-eight percent of new car buyers rate third-party sites as very or extremely important sources of information, and they visit an average of seven different sites, such as Kelly Blue Book, Autobytel, and Edmunds.[2] Many prospective buyers start their online research months before setting foot on a dealer's lot. And 6% go on to save an average of $450 per vehicle by using an Internet buying service.[3] The implication: old-style marketing is less effective when customers have independent means to research a company's claims and obtain cost information.

2. **Access to more alternatives:** Customers can find competing products more easily. Search engines, comparison sites, and online reviews all enable customers to find the best products at the lowest price. For example, travelers now enjoy a range of web sites (e.g., Expedia, Orbitz, and Travelocity) that help them find the lowest fares on flights. Over 63% of leisure travelers and 69% of business travelers utilize the Internet for research.[4] Internet sales grew 37% in 2002 to $28 billion, even as total travel services fell 5%—indeed, 35 million people bought tickets online in 2003.[5] Leisure and business travelers increasingly refuse to pay high fares, causing much financial misery for airlines.

   The Internet has also impacted the real estate market by making wider-spanning and richer information available to homebuyers. Online real estate buying services (such as eReality and ZipReality) rebate up to 1% of the purchase price, thereby lowering commissions and saving customers thousands of dollars on the purchase of a house.

---

[1] J.D. Power, "2002 New Autoshopper.Com Study" (J.D. Power, West Lake Village, CA), October 2002, reports 64% and Jupiter Research, 2003, reports 77%, Cospirit Research found 83% of UK car shoppers found the Internet an aid to them.

[2] J.D. Power, "2002 New Autoshopper.Com Study" (J.D. Power, West Lake Village, CA), October 2002.

[3] Morton, Fiona S., Florian Zettelmeyer, and Jorge Silva Risso, "Internet Car Retailing." *The Journal of Industrial Economics*, December 2001:501-19.

[4] Yesawich Partners, "Consumer Travel Plans Include Visit to Net," May 6, 2004.

[5] Sileo, Lorraine and Joshua Friedman. "PhoCus Wright's Online Travel Overview: Market Size and Forecasts 2002-2005," February 2003.

3. **More simplified direct transactions:** Customers can buy from anywhere, regardless of physical location. The Internet simplifies transactions for both consumers and industrial customers. Customers can connect directly with providers to buy goods and services. For example, online ordering and direct shipment make buying books and electronics possible at any time without leaving home. Electronic airline tickets eliminate the need to obtain paper tickets, thereby reducing people's dependency on local travel agents. Simplified transactions also enable switching—the Internet gives customers the power to find and buy from a wider array of potential providers.
4. **Increasing communication between customers:** Prospective customers can find out if a company has mistreated former customers by consulting and collaborating with them through the Internet. In 2002, 110 million Americans looked on the Internet for healthcare information. An additional 48 million consumers in Japan went online for healthcare information, 31 million went online in Germany, and 14 million went online in France for health data.[6] Active online communities exist for virtually every disease. Patients exchange information about the effectiveness of products and provide advice to each other about how to take control of their medical treatments. When a customer requests a specific prescription, 84% of the time that request is honored by the doctor.[7] Sites such as epinions.com or planetfeedback.com make it easy for customers to submit their opinion of a company or product and for other potential customers to find these ratings.

   Increasing communication between customers amplifies and accelerates word-of-mouth marketing. In the past, bad companies lost customers one at a time. At worst, the occasional exasperated ex-customer might convince a few friends to stop buying from the company. But now, the Internet provides global reach for the disgruntled. Web sites such as thecomplaintstation.com, rating services, and discussion forums accelerate the process of weeding out bad products, bad service, and bad companies. 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. Very visible star ratings summarize the seller's reputation in terms of the quality and quantity of comments.

---

[6] "Four Nation Survey Shows Widespread but Different Levels of Internet Use for Health Purposes." *Health Care News*, v.2, No. 11 (May, 2002) Harris Interactive, 2002.

[7] "Cybercitzen Health—The Integration of Information Technology and Consumer Healthcare." Manhattan Research, 2002.

5. **Increasing control over contacts:** Customers can avoid a company's marketing efforts. Consumers have more control over the flow of marketing messages into their homes and lives. Consumers' distaste for junk mail, telemarketing calls, spam, and pop-up ads means that these pushy messages are more likely to earn ire than profits. Technology empowers consumers by letting them mute or zap TV commercials, screen telephone calls, block pop-up ads, stop telemarketing, or send spam straight to the trashcan. For example, 94% of people "distrust" pop-up ads,[8] over 20 million have installed pop-up blockers,[9] and over 50 million people signed up for "no call" protection.

Customers are taking advantage of these five trends to become more powerful consumers. They are tired of corporate hype and corporate scandal. More than two-thirds (69%) of Americans agree with the statement, "I don't know whom to trust anymore," according to a February 2002 Golin/Harris Poll.[10] Companies tarnished their images through accounting scandals and product recalls. CEOs lost credibility with fat salaries, while workaday staffers lost 401k retirement savings in a market downturn.

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[8] Intelliseek, December 2003, "distrust" means "distrust completely" and "distrust somewhat."

[9] Neff, Jack. "Spam Research Reveals Disgust with Pop-up Ads." *Advertising Age*, vol. 74, issue 44, August 2003.

[10] "American Business Faces a Crisis of Trust." *Trust*, February 2002.

According to a 2004 Gallup International and World Economic Forum study, there is a dramatic lack of trust in global and large national companies, and trust is even lower when it comes to NGOs, trade unions, and media organizations across the world. Global companies and large domestic companies are not trusted to operate in the best interest of society—48% of the 36,000 respondents across 47 nations had little or no trust in global companies, and 52% had little or no trust in large national companies.[11] The highest level of distrust of any institution was 52%. In 2003, two-thirds of Americans believed that "if the opportunity arises, most businesses will take advantage of the public if they feel they are not likely to be found out."[12] Furthermore, customers are resentful of current marketing tactics. Sixty-four percent of consumers are "furious" about pop-up ads on their screens (96% were "angry" or "furious")—the same percentage as those who are furious over spam.[13] Ninety percent of customers say "they think less of brands featured in pop-ups."[14] These resentments make consumers fight back and exercise the increasing power granted to them by these five dimensions of customer power.

In an era of customer power, untrustworthy companies can be out of business. In a few short months, the venerable Arthur Andersen went out of business because a few employees broke the trust (shredded Enron evidence); over 100 years of tradition were gone, and 20,000 employees lost their jobs. In 2005, Merck is facing a major crisis because it is now evident that Vioxx increases the risk of heart attacks and stroke. Although legal damage suits will continue for years, the court of public opinion has already dealt a severe penalty to Merck stock value. The firm's health itself is in question because of its failure to be completely candid with customers.

---

[11] Voice of People Survey, "Trust in Global Companies," World Economic Forum, 31 March 2004.

[12] Craig Wood, "Crisis of Confidence: Rebuilding the Bonds of Trust" (Chicago, IL, Yankelovich, 2003), p. 8.

[13] Neff, Jack. "Spam Research Reveals Disgust with Pop-up Ads." *Advertising Age*, vol. 74, issue 44, August 2003.

[14] Blackshaw, Petel. "Pull the Plug on Pop-up?" *Adverstising Age*, vol. 74, issue 44, November 2003.

Untrustworthy companies may not all go out of business, but at least they will suffer a competitive disadvantage. Customers' abilities to verify marketers' messages make traditional hype a very risky strategy. This new transparent reality will weed out those companies that do not honestly deliver information and real value to customers. In the face of this Darwinian trend, companies have no recourse but to change their relationship with customers and build trust.

The point is that the Internet and other computer-augmented technologies enable consumer power, and companies' pushy tactics and lack of trust encourage customers to use that power. Today's consumers are more educated and more informed than ever before. With more tools for verifying a company's claims, customers can seek out superior product and service options. There are no secrets any more! Companies must decide what to do in the face of this growing force.

HOW SHOULD YOUR COMPANY RESPOND?

In the face of increasing customer power, your company can choose among three possible strategies. These strategies range from amplifying the traditional push/pull model of marketing, to strengthening relationships with customers, to embracing true customer advocacy. I'll introduce these strategies in this section and then discuss their relative merits in depth in Chapter 6, "Where Are You Positioned on the Trust Dimensions?"

Push/Pull Harder: You may be tempted to respond to your customers' new power with good old-fashioned marketing push and pull. Increased pull by media advertising, aggressive push by price promotions (perhaps with higher initial prices or hidden fees to maintain profits), and potentially misleading one-sided communications might get the job done. After all, those time-tested tactics have been the core of marketing for the last 50 years. But modern-day consumers are wiser and more elusive than their more gullible predecessors. Even as consumers have embraced a greater influx of information, the media channels by which a company might push information to consumers have become less effective. Media fragmentation, consumer skepticism, and the time pressures of a modern lifestyle mean that pushing information and products on unsuspecting customers is an uphill battle.

In the halcyon days of mass media, everyone read his or her local newspaper and watched one of the three national broadcast TV channels. In the past, a company could reach a large mass of consumers through any of these mass-media outlets. But now, daily newspaper readers are in the minority, national broadcasts have lost market share to a dizzying array of cable channels, and the Internet has diverted peoples' attention to a fragmented web of online sites. The national broadcast networks have seen their market share of prime-time audiences decline 50% since 1970. When today's figures are compared to the 1960s, the decline is even worse. The hundreds of channels available on cable or via satellite fragment the TV's power, making it harder for marketers to push their messages to the millions of viewers that they need. Surprisingly, advertising costs have not fallen—in fact, they are way up! Network prime time TV cost per thousand exposures rose 18% from 2000 to 2003.[15]

Even if a prospective customer is exposed to your TV ad, only one-third actually watch the ad—the vast majority mute it, switch channels, or leave the room.[16] In a 2004 study, Yankelovich found that 79% of viewers flip channels during commercials compared to 51% in 1986, and 53% turn down the volume versus 25% in 1986.[17] Ads lose out in the competition with the refrigerator, the bathroom, family members, other TV channels, electronic games, and the Internet. Average use of the Internet is almost the same as TV viewing time, at 15 hours per week, and 36% of people say they are watching less TV.[18] Some people under 21 never watch TV and prefer to use the Internet and mobile devices. Even on the Internet, with its deftly targeted pop-up and banner ads, click-through rates have fallen dramatically since the early Internet days of 1998 to 2005. Internet service providers and software vendors now tout their capability to block pop-ups and spam. Junk mail gets tossed, and telephone calls are screened by Caller-ID, answering machines, and no-call registries. The effectiveness per dollar of push/pull marketing has dropped dramatically!

---

[15] Media Dynamics, Inc. *TV Dimensions 2003.* p. 74.

[16] Tandemar Corporation, "Quality of TV Viewing Experience." (Tandemar Corporation, Canada) 2000.

[17] Smith, J. Walker, Ann Clurman, and Craig Wood, *Coming to Concurrence* (Racom Communication, Evanston, IL, 2005), p. 125.

[18] Jupiter Research, "Marketing and Branding Forecast: Online Advertising and E-mail Marketing Through 2007," *Marketing and Branding*, v.2 (Jupiter Research, New York, NY) 2002.

Admittedly, a company may continue to thrive using a push strategy in this brave new world of fragmented media and attention-deficient addled customers. Clever, funny, or engaging ads can draw customers in. Shrewd selection of highly specific media with refined targeting can help a company reach its intended niche audience. But aggressive push can be a false victory—winning the sale but losing the customer if excessive hype or questionable (but not illegal) pricing tactics leave the buyer embittered and resentful if they find out the facts. And in today's world, they *will* find out the facts!

Strengthen Relationships: In trying to appeal to a more powerful customer base, your company might pursue a strategy of relationship marketing. In recent years, many leading companies have refocused on their customers by emphasizing customer satisfaction metrics, creating consistency in customer interfaces, building better products through Total Quality Management, and emphasizing more personalized service. *Customer Relationship Management (CRM)* software often backs these efforts by giving a company the data and functionality it needs for one-to-one marketing and creating a consistent one-face-to-the-customer interface. CRM helps a company to understand each customer and then deliver a consistent message or service to that customer. By putting the "custom" back in customers, these companies can target their customers better and can deliver persuasive information and promotions more efficiently.

Customers may enjoy this new emphasis on one-to-one connections, but only if your company is very careful about how it uses the data. The dream of CRM is for a close positive relationship with customers, but the reality is often more invasive marketing. Too many CRM programs are based on building a huge data warehouse, mining the data, and then hitting the identified segments with aggressive email, phone, or Internet promotions, with or without customer permission. For some companies, CRM is merely a more efficient means of push/pull marketing, targeting customers in the sense of drawing accurate cross-hairs on their chests. Impertinence and aggressive cross-selling can make your customers treat your company as if it were a cheeky acquaintance—making the customer cross the street to avoid contact with you. No wonder 55% of CRMs have not succeeded.[19] If your CRM is a push system, it is not going to work well in this world of customer power. You need to fulfill the dream of CRM by building a long-run trust, but even this may not be enough. Advocacy is an effective new strategy and you should consider it.

Customer Advocacy: Your company might choose to embrace advocacy by becoming a faithful representative of your customers' interests. Under this approach, you provide customers and prospects with open, honest, and complete information. You give them advice so that they can find the best products, even if those products are not your company's products. Far from being foolish, the honesty of advocacy reflects the reality that customers will learn the truth anyway. If your company is distorting the truth, your customers will detect those falsehoods and will act accordingly.

Of course, if you embrace honesty, you will need to have very good, if not the best, products. With transparency, this is the only way you can earn the customer's purchase. You will invest more in product design and quality and less in pushy promotion and advertising.

Advocacy is not a way for your company to speak *at* customers. Rather, it is a mutual dialogue that assumes that if you advocate for your customers, those customers will reciprocate with their trust, purchases, and an enduring loyalty (see Figure 1-1). It is a partnership between you and your customers for everyone's mutual benefit. You advocate for their interest, and they advocate for you by buying your products and helping you design better products. Most importantly, they tell other customers about your firm and products. Advocacy has duality—the partnership created by advocacy is mutual and reciprocal. If customers tell others about the positive partnership, then customer acquisition costs will decline, and customer preference for your product will grow. Companies that advocate for customers will enjoy more opportunities to sell a wider range of products to more people. This can lead to growth in sales as customers and their friends choose your company's products. It also leads to greater profit margins as customers come to realize that you offer an extra value that is reflected in an honest, reasonable price. General Motors, Intel, Leading Credit Unions, and John Deere are a few of the companies that are testing and implementing advocacy programs, and we will discuss these cases in depth later in this book.

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[19] John Freeland, *The Ultimate CRM Handbook* (McGraw Hill, New York, 2003) p. 3.

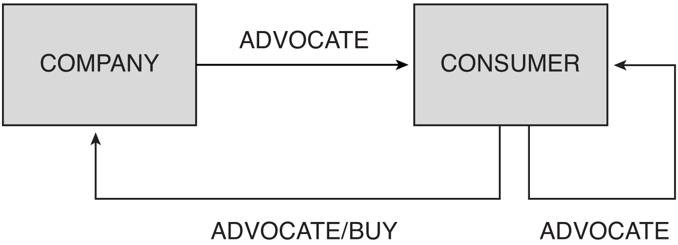

Figure 1-1 Company Advocates for Consumer and Consumer Advocates for the Firm

BUILDING ADVOCACY

Advocacy is a major step forward in the evolving interaction between a firm and its customers. Push/pull marketing is driven by the economics of mass production—efficient processes that created mounds of low-cost goods. Relationship marketing is impelled by the saturation of push marketing and intense rivalries, particularly around quality and price. Advocacy will be the next imperative because of the accelerating growth of customer power.

The Advocacy Pyramid: Figure 1-2 shows the pyramid of advocacy that defines the underpinnings of this strategy. Total Quality Management (TQM) and customer satisfaction are at the base of the pyramid. They are necessary conditions for trust and advocacy. If your company wants to honestly recommend its own products, then it must have products that are good enough to recommend. Advocacy is supported in the middle by relationship marketing because CRM provides the tools needed to personalize your company's advocacy relationship with each customer. The pinnacle is advocacy.

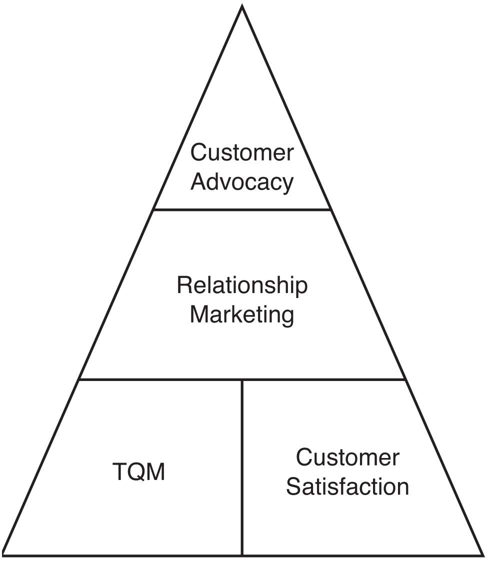

Figure 1-2 The Advocacy Pyramid

As you reach the top of the pyramid, you won't use CRM as you did in the past. Instead of targeting promotions and company communications at your customers, you will design CRM to build trusted and partnering relationships with your customers. You will use CRM and related systems to provide balanced, transparent, and relevant information plus unbiased advice on how to make the best decision. CRM, seen in this light, would be better called a "Dream CRM" strategy since it makes the dream of CRM real. Likewise, one-to-one and permission marketing shifts in the company's intentions toward customers. But instead of creating more micro granularity in spewing out promotions and hyping tangentially relevant company product information, these methods should become a mutual dialogue between individual customers and your firm to maximize customer interest over the available products in the market.

EBAY BECOMES THE KILLER APPLICATION THROUGH TRUST

Who would have thought that a site started by a French-Iranian immigrant (Pierre Omidayar) to help a girlfriend to trade her Pez candy dispenser collection would become the killer application of the Internet? Who would have thought that millions of people who have never met would buy and sell billions of dollars of goods over the Internet, including thousands of used cars? Yet this is exactly what eBay did—in 2003, over 20 billion dollars of goods exchanged hands at the online auction site.[20] eBay is a microcosm for the economy as a whole—it illustrates both customer power and the profits created by trust.

The keys to eBay's success are the mechanisms that help buyers and sellers trust each other. This trust has enabled eBay to create a new marketplace for buying and selling. One trust mechanism tracks the reputations of participants through the feedback between buyers and sellers. Buyers may enter feedback (positive, neutral, or negative rating and description) about a seller, and vice versa. The percent of positive comments is displayed for each seller. Sellers garner star ratings based on the number of net positive votes (yellow at 10 to 49, and on to green at 5,000 to 9,999, and shooting stars for higher numbers), and the stars appear next to their items. Every auction contains simple, clear information on the reputation of the seller. Because of this rating system, buyers and sellers trust each other enough to exchange large amounts of money without even seeing an item in person. Sellers are upgraded to "Power Sellers" if they embrace the core values of the eBay community and maintain 98% positive feedback. This results in a "Power Seller" label next to the item they offer for sale.

The behavior of bidders on eBay illustrates the profitability of creating trust through reputation. Trustworthy eBay sellers—those who build a good reputation with buyers through multiple transactions—enjoy higher prices for their goods at auction. A controlled experiment found that buyers bid 7.6% more for otherwise identical goods that are listed by repeat sellers with high reputations.[21] Ebay's feedback systems create the transparency needed for buyers to assign higher monetary values to good reputations.

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[20] Maney, Kevin. "The economy according to eBay" USAToday.com, http://www.usatoday.com/money/industries/retail/2003-12-29-ebay-cover_x.htm, December 2003.

eBay also has an aggressive fraud protection program, ensuring that less than .01% of transactions are affected by fraud.[22] PayPal is available for making payments on eBay, and along with credit card companies, it protects against fraud losses. Participants who have changed IDs in the last 30 days are flagged with a pair of sunglasses to indicate that there may be a reason why the person changed his or her ID. You are encouraged to "get to know your seller" by asking email questions, and you can easily report suspicious activity. For more valuable items, eBay offers an escrow service, Escrow.com, that ensures that both the money and the goods reach their respective parties. Another partner company, Squaretrade.com, provides a range of reputation-enhancing services, including ID verification, dispute resolution, and a seal that eBay sellers can display to protect buyers from fraud; in addition, purchases can be protected up to $250 after a $25 deductible.

These trust builders have enabled eBay to grow and support commerce between millions of seemingly anonymous buyers and sellers. eBay has even become a major force in used car sales ($2.5 billion in 2002).[23] Some buyers trust eBay's used car selling system so much that they will travel hundreds of miles to pick up a used car that they've only seen on the web site. Most cars are sold by used car dealers. These people are the most abusive marketers in the offline world, but eBay's seller ratings have forced honesty and trustworthiness upon them. Reputation is so important on eBay that these used car sellers are especially diligent about documenting the features as well as the flaws of the cars they offer. eBay illustrates the increasing role of transparency and reputation for the creation of trust that underpins all commercial transactions.

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[21] 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.

[22] Mainelli, Tom. "eBay Identity Theft Hits Close to Home." Quote from Kevin Pursglove, eBay spokesman, CNN.com, http://www.cnn.com/2002/TECH/internet/02/18/ebay.identity.theft.idg, February, 2002.

[23] Wingfield, Nick and Karen Lundegaard. "Clicking the Tires: Ebay Is Emberging As Unlikely Giant in Used-Car Sales." Wall Street Journal, Feb. 7, 2003, p.A1.

Benefits of Advocacy: Advocacy builds trust. Trust is more than just a self-congratulatory adjective to be appended to a company's press releases. Trust means advocating for the customer's long-term interests. Trust is hard to earn—and easy to lose—but if your company earns trust, it will enjoy sustained benefits. Trust increases customer loyalty because satisfied customers buy repeatedly, purchase a wider variety of products, and recruit their friends to become customers. This can mean profitable growth. Advocacy creates business benefits in four areas:

- **Reduced Customer Acquisitions Costs:** Advocacy can reduce your customer acquisition costs in two ways. First, it lowers the cost of acquiring each new customer. Instead of wasting money on ads that play to empty couches, a trustworthy company enjoys a beneficial word-of-mouth reputation. Second, trust lowers the number of new customers that a company needs to acquire to maintain top-line growth. Acquisition costs are much lower than retention costs for most industries. With advocacy, a company is not constantly forced to acquire new customers to replace the departing dissatisfied customers. The advocacy-based company retains loyal customers.
- **Higher Profit Margins:** Trust can increase the prices that your company is able to charge. Customers are willing to pay more for a quality product from a trustworthy supplier. Although some customers are deal-prone, many are willing to pay more to get more. In a busy world, consumers will pay to buy a brand they can trust to avoid the aggravation of problems.

- **Growth:** Advocacy can also help your company diversify and expand its share of wallet (percent of total expenditure by customer) with satisfied customers. When a company becomes a trusted provider, customers will look to that company for more products and services in more categories. Although push-based companies can engage in up-selling and cross-selling, trust-based companies will be more successful because customers are more likely to believe the company's recommendations. Advocacy-based companies are also more likely to understand and respect each customer and therefore make meaningful suggestions that lead to higher conversion rates.
- **Long-Term Competitive Advantage:** Advocacy lays the foundation for long-term competitive advantage. A better, more consultative relationship with valued customers helps the company to innovate in market-leading directions. Instead of guessing what customers might want, a trust-based company has a good understanding of its customers and their buying patterns. Customers will help advocacy firms to create successful new products. Trust also builds the brand by fostering a better reputation for the company. When times are turbulent, customers will stick with firms they trust.

These benefits are even more applicable when the customer is a business rather than an individual consumer. In industrial marketing, the 20% of salespeople who sell 80% of the total sales volume for the firm owe much of their success to building trust-based relationships with clients. Moreover, customer power is also rising among industrial customers. Companies ranging from Wal-Mart to Sony to GM all have supplier performance programs. Such systems entail a range of tactics, such as supplier scorecards, supplier pre-certification, requirements for adhering to ISO 9000 quality management standards, and software systems to track supplier performance.

Many companies use software, such as ERP (Enterprise Resource Management), SCM (Supply Chain Management), or other specialized SPM (Supplier Performance Management) software packages to track and evaluate suppliers. In some cases, the customer company might even have better quality and performance data about the supplier than the supplier itself does.

The sales of commodity items may be done on a cost-based push approach, but sales of the strategic raw materials and component parts that go directly into manufactured goods are a different matter. In fact, trust is far more important in the supply chain, where companies establish long-term relationships with strategic suppliers. Collaborative development of products—co-creating the supplier's products to mesh perfectly with the customer's products—is a good example of a trusted-based strategic relationship in the supply chain. As companies move to lean production methods, just-in-time manufacturing, or outsourcing, they become even more dependent on suppliers. Thus, good suppliers must be trustworthy.

WHAT IS NEW HERE?

Many authors have stressed the importance of focusing on customers and developing an intimacy with them.[24] CRM has been offered as a methodology for building loyalty.[25] These concepts should be viewed as squarely in the middle of the advocacy pyramid, but this is not enough. What is new is the top level of the pyramid. Customer advocacy draws on the past work in strategic management, but it represents a revolutionary set of principles, tools, and tactics. It is like the shift from subsonic to supersonic flight. The development of supersonic flight involved an extreme overhauling of previous assumptions about and methods of flight. Subsonic flight principles are based on laminar flow over a curved wing profile, whereas supersonic flight principles are based on turbulent airflow and impact of the mass of air on the flat wing surface. Customer advocacy requires a new set of assumptions about customers and a new theory of marketing success. So many things are new.

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[24] For some examples, review: Tracey, Michael and Fred Wiersema. *The Discipline of Market Leaders* (Perseus Publishing, New York, 1995); Day, George. *Market Driven Strategy* (Free Press, New York, 1999); Slywotzky, Adrian and Richard Wise. *How to Grow When Markets Don't* (Warner Books, New York, 2003); and Peppers, Don, et al. *One to One Field Book* (Doubleday, New York, 1999).

[25] For example, see: Freeland, John. *The Ultimate CRM Handbook* (McGraw Hill, 2003).

A NEW PHILOSOPHY

Relationship building is based on understanding customers and meeting their needs, but advocacy is based on maximizing the customers' interests and partnering with customers. This goes beyond customer focus to actively representing the customers' interests like a good friend. This philosophy is based on the realization that customers are in control, so the path to success is to help them make the best decisions possible in the complex world of buying. The philosophy is based on mutuality of interest. If the firm helps the customer, it will learn what products and services customers really want and then can provide the products that honest advice would recommend. The customer advocates for the manufacturer by telling others about the firm and developing a long-term trust and loyalty for the firm.

NEW EVIDENCE

Although early Internet visionaries predicted that customers would gain decision alternatives and better information from its development, when the Internet bubble broke in 2000, many people rejected these notions.[26] In this book, I review the new evidence that establishes that customers actually have acquired new power. It is all around you and the effects are being felt in industries like travel, autos, and health services. I spend three chapters showing how power has grown and is changing the balance from push/pull marketing to trust-based marketing.

THE NEED FOR TRANSPARENCY

One tenant of the new philosophy of customer advocacy is transparency. You need to be completely honest and present full and complete information. In this book I show how you can use transparency to build trust with your customers and earn loyalty that assures profits even in turbulent times.

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[26] For examples of predictions, see: Bakos, Yannis, "Reducing Buyer Search Costs: Implications for Electronic Marketplaces," *Management Science,* December, 1997, Brynjolfsson, Erik and Michael Smith, "Frictionless Commerce? A Comparison of Internet and Conventional Retailers," *Management Science*, April, 2000, and Wind, Yoram, et al. Convergence Marketing (Prentice Hall, Upper Saddle River, NJ, 2002).

ADVICE IS REQUIRED

The complexity and number of options in your product offerings are probably high. For example, if you are a bank, you may offer 25 different mortgages; if you are a computer manufacturer, you may sell eight models and 100 configurations of computers; or if you are an auto producer, you may sell four brands and 25 models for each brand. Customers need honest help and complete information in order to pick the best product for themselves—not the product that maximizes the manufacturer's profit. The product should be the one a trusted friend would recommend. For the customer to have confidence, belief, and willingness to accept your advice, you must establish trust with a carefully instructed advisor virtually on the web or in person. A transparent and intelligent advisor who is genuinely in the corner of the customer represents advocacy for the customer across your firm's product offerings. This need is amplified by the fact that customers want to make good decisions efficiently. They want to trust an advisor to save time and make a better decision.

COMPARE YOURSELF TO COMPETITION

It is useful to give advice across your product offerings, but true advocacy demands that you provide information and advice across all offerings in the market. You should compare yourself to competitors, even if you are not the best, because customers are doing it anyway. You need to go beyond transparency and be proactive in representing your customers' best interests. If you do not come out on top in the honest comparison and advice you give, redesign your products so that they are the best. This may sound counterintuitive, but it is like stopping the production line if even one quality defect occurs. It is a severe reaction, but it should seldom be necessary, and quality will improve when everyone knows that you are serious about having the best products. In this book, I will tell you how you can "listen in" to this advice session, how to learn what is needed to make your product number one, and how to uncover hidden opportunities for new products.

SPEND LESS ON ADVERTISING AND PROMOTION

Advertising reach and effectiveness is going down, and prices are going up (in terms of cost per thousand viewers), so the cost/benefit ratio is decreasing and you should probably spend less in any case because of this declining productivity. But even more important in this context is that for customer advocacy, you should be concentrating on two-sided and unbiased information and advice. More money should go to Internet advisors, providing comparative product trials, and building peer communities composed of customers and your company. Promotion is a heavy-handed attempt to buy sales. With advocacy, you want to have superior products and represent them based on their value. You will not need as much price off promotion. You should allocate old advertising budgets to product improvement, communicating new products, and building new trustful communication channels.

NEW TOOLS ARE AVAILABLE

The good news is that a range of new tools is available to provide transparency, advice, and input to improve products. In this book, I explain how virtual advisors can be implemented on the web. These virtual personas function like a friend to provide help and honest guidance to help the buyer make the best decision for him or her. These complementary tools allow firms to build improved products based on the information customers provide about their needs and desires while talking to the persona. I also suggest methods to convert a CRM system that may be push-oriented into a CRM that fulfills the dream of a positive relationship by becoming a tool for advocacy.

THE NEW TOOLS WORK WELL

Not only are new tools available to build trust, but also they actually work. In this book, I will give numerous examples of tools for advocacy and evidence that they work. Here are a few brief examples that I will expand upon later in this book.

Credit Unions like First Tech in Portland, Mission Federal in San Diego, Bellco in Denver, and University Federal in San Antonio are finding that a trusted advisor for mortgages and loans builds trust with customers, substantially increases loan volume, reduces costs by requiring fewer loan officers and shorter customer sales sessions, and earns recommendations from users (95% would recommend the advisor to a friend).

General Motors created and experimentally tested a Dream CRM that converted their push/pull CRM into an advocacy tool by giving fair advice across all cars, providing comparative test drives across GM and competitive vehicles in a non-selling situation, building communities, and providing individualized product information customized to consumers' preferences. The results of market experiments were statistically significant and implied the potential for large increases in market share for those exposed to all the Dream CRM components. A complementary analysis of the dialog between the advisor and customers yielded opportunities for new models with an estimated hundreds of millions of dollars of sales. Most recent experiments are based on extending the Dream CRM into a full auto advocacy system.

Intel refined its customer support download site by conducting five sequential market experiments and found that adding improved navigation, a logic wizard, and persona resulted in a one-third improvement in download success and millions of dollars of lower costs in meeting the customers' download requirements with the Internet instead of with personnel from the call center or channel members.

Other companies such as John Deere, travel sites like Travelocity.com, Expedia.com, and Orbitz.com, and retailers such as Epinions.com, Amazon.com, Shopping.com, and Cnet.com have had positive experience with full information and honest comparisons. The pioneers have proved that the new methods work, and now many firms are considering adopting these techniques as they shift the balance of their marketing efforts from push/pull to trust and advocacy.

IS ADVOCACY FOR YOU?

Many things are new in customer advocacy, from philosophy to strategies of communication and product development. But you need to decide if they will work for you and your firm. If I am to follow my own advice, I must alert you, the reader (my customer), to the alternatives to trust-based marketing and note that an advocacy strategy is not suitable for everyone. Indeed, many companies face competitive situations, operating conditions, or customer characteristics that preclude the use of advocacy. Yet, with each reason to not build trust, there are exceptions to the exception—reasons why conditions that preclude trust might change or where trust might provide competitive advantage by moving from push to relationship or full advocacy.

An advocacy strategy is not suitable for every organization. For instance, a company's products could be undifferentiated, highly standardized commodities requiring little involvement from customers. Or buyers could be deal-prone individuals who evaluate offerings only on price. Or a company could enjoy a monopoly position. In addition, an organization's goals can be a major impediment to implementing an advocacy strategy. If short-term results are crucial, then advocacy might not be the best approach because it requires a long-term outlook and patience for return on investment in relationships with customers. We will discuss where trust may not work (and the counter-arguments for why it might still work) in a range of business scenarios in Chapter 7, "Is Advocacy for You?". All that being said, I believe customer advocacy will be relevant to most organizations and will be the strategy of choice for the industry leaders and most successful firms. In this book, I will teach you how to tell if advocacy is for you.

THE PARADIGM IS SHIFTING—PIONEERS WILL GAIN ADVANTAGES

Evidence is building that the paradigm of marketing is changing from the push strategies suited to the last 50 years of mass media to relationship marketing and now to advocacy-based strategies. The new age of customer power drives this shift. Managers need to decide where their firm should be in the spectrum from push/pull to advocacy. Intermediate points that build trust can be an endpoint in the trust level or can be evolutionary steps on the way to an advocacy strategy. But relationships are not likely to be enough to achieve success in a world of customer power.

There are advantages to being a first mover in this strategy space because when customers develop trust based on advocacy with a particular firm, they are not likely to quickly switch to a competitor. Trust creates a barrier to entry by increasing customer loyalty and by forcing would-be competitors to spend more time and resources to develop a trusted reputation. For second-movers, trust is a chicken-and-egg problem—they cannot create trust without a track record of sales, and they cannot gain sales without trust. Even if later entrants try to compete on the trust dimension, the pioneers will have a superior position if they continue to innovate in the design of advocacy programs. Therefore, not embracing advocacy creates a risk to firms' growth and profits if competitors gain the trust of customers first. The movement to a trust-based strategy does present short-run challenges, but it also offers major long-run opportunities.

Although trust is not the best response in all situations, innovative firms are moving beyond CRM to implement advocacy-based strategies, and early adopters are formulating action plans to advocate and partner with customers. I predict advocacy will increasingly become the norm of behavior in the next ten years as the new paradigm becomes established and firms meet the threat (and opportunity) of growing customer power. Pioneers will gain advantages, but all firms will have to learn to compete in a world of trust.

WHAT YOU WILL LEARN IN THIS BOOK

In this book, you will learn that the growth of customer power is pervasive and that it requires us to develop a new theory for market strategy—Theory A (for Advocacy). Based on this theory, you will learn how to determine whether an advocacy-based strategy is right for your firm and how to build the trust necessary for this strategy. I provide you with new tools for advocacy building that you can apply to your business, and I identify the leadership skills and cross-functional requirements that you will need to make a successful response in this rapidly changing era of consumer power. You will learn what you need to do to change your firm's culture, create incentives, develop measure of success, and redefine your organization. Finally, I discuss the future of advocacy and argue that advocacy will become an imperative and not a choice. Those who lead in advocacy will gain profits, and customers will be reluctant to switch from these pioneers. Those who do not lead will have to respond to be competitive and will suffer a disadvantage because of their late adoption of customer advocacy. Relationship will not be enough and customer advocacy will become the key to profits in this age of customer power.

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