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***Business Challenges in the 21<sup>st</sup> Century – Japan and Sweden Business Relationships in the Wake of the Global Economic and Financial Crises***

**One-to-One Marketing – a Way to Earn Loyalty in the Mature Consumer Markets?**

How to develop your business in a true consumer perspective.

*There are different concepts on how to perceive and manage customer relationships. I here discuss the One-to-One marketing concept and its implications on customer loyalty on consumer markets. The text is aimed for both business practitioners and academics.*

Near Shibuya station here in Tokyo, there is a popular statue of a dog. The famous dog Chuken Hachiko that waited for his master that once took a train and then died. The dog came back and waited in vain by the station every day for 10 years.

Hachiko did not get any treat or punishment to do so. It was something else. Maybe the dog was loyal because his master had treated him with respect? Or had it just become a daily habit? Anyway, the dog choose to come back over and over like a clockwork.

This seems to be the dream many marketers have about their customers, to find a way to make the customer come back over and over.

When competition increases, and markets mature and growth and profits fall off, managers look for new ways to develop their businesses. One of the most published terms in business journals over the last two decades is *loyalty*, mostly meaning the concept of customer loyalty as a way to improve profits through customer retention.

The now famous rules of the thumb, supported by Frederick Reichhelds work (1996), states that it is 6-10 times more expensive to get a new customer than to keep one. And that a decrease of customer defection by 5% will increase profits up to 100% This implies a focus on *remaining* current customers rather than catching new ones.

One common belief among marketers is that a satisfied customer remains a customer and is more profitable both through better price and lower transaction costs. This causality is being questioned, partly because the correlation's are weak, partly because loyalty programs can be expensive.

According to behavioral loyalty research (Dowling, Uncles 1996), only 10% of the customers are loyal to a brand, among the fast moving consumer goods, during a year. At the same time they also bought other brands.

Programs that try to *buy* loyalty through extras and discounts are still popular among marketers. Some try to copy the success from frequent flyer programs (not all industries can offer an attractive bonus at such a low marginal cost!). But loyalty that is built on money, can be bought again. It is a loyalty to the treat or to the money itself, not to the supplier.

In order to *earn* loyalty in a sustainable way, there is something missing in such programs: the customer involvement and trust. A company in strong competitive environment can keep its customers in the long run only through caring about and considering the customers best interest.

Most companies want their customers to have a close relationship with the company or the brand. But few customers want to engage in a relationship with a business. To some customers, a loyalty program rather turn into an uncomfortable choke collar, which limits their freedom of choice.

Customers that have learnt to run for discounts and bonuses, will continue to go for the best bargain at hand, occasion by occasion, instead of going for a well known supplier or the best routine for replenishment.

Companies can create barriers of exit, to make it harder for the customer to switch, which sometimes can make her feel trapped and result in reactance.

But the supplier who can *show me respect* and *simplify my living*, might keep me as a customer, especially if I trust him. Such a relationship, earned through customer trust rather than tamed with a bonus or locked in with switching cost, is vital for long-term survival.

This competitive strength is especially important to keep in mature markets with decreasing product differences and increasing ability for the customers to get information and to compare alternatives. That means most consumer markets of today.

### The One-to-One Marketing Concept

The concept of One-to-One Marketing was first introduced by Don Peppers and Martha Rogers in their book “The One-to-One Future” (Peppers, Rogers 1993).

According to them, the information technology (IT) is a main driving force that makes it possible to treat different customers differently and thereby keep them forever. Companies are supposed to lock in the customer and build relationships. The reason for the customer to stay varies, but one reason is higher switching cost.

Their books are full of examples and ideas where IT can make it possible to identify, track and interact with individual customers, including loyalty programs especially in service sectors such as the airline or the telecom industries. The focus is on utilizing

technology and direct marketing in a new way to create close relationships with individual customers, mainly based on rational reasons.

But One-to-One Marketing can also be seen as a concept that, instead of buying loyalty or locking customers in, builds on customer care. If the growth and profits lies within the customer over time, not in getting new customers and greater market shares, it is salient to listen to the individual customer and try to learn from, and adapt to, her situation and values. Rather a perspective on business than a marketing tool. Seen in this perspective, mature markets are irrelevant, there are always customers from whom there is more to learn.

By the time this individual person has trained her supplier to deliver exactly what she wants, it is harder for competitors to call her away again. Furthermore, it takes much effort for the customer to teach a new supplier. A key question is: is there trust enough to open up and submit personal information to that supplier?

Given this trust, a key principle is the *learning relationship*. That does not only mean to make the customer learn more about the company, the product category or the brand. The learning relationship first of all means letting the customer teach the supplier what she really wants and how the delivery should be made.

So, the ideal One-to-One company should:

- review its customer attitude and commit to the customers best interest to deserve her trust.
- organize itself as to letting the individual customer express her needs and wants and customize the delivery accordingly
- given permission - always remember the customer, who she is, what she buys, preferences and opinions and consider this information in every part of the customer interaction.

The information technology revolution enables One-to-One Marketing, even on traditional consumer mass markets. Today it is possible to track each customer, and her preferences (get her permission first!). When you know who she is, what she thinks and buys, you can differentiate individual customers. And it is possible to make and distribute individualized products through the concepts of mass customization or modularized production, introduced by Joseph Pine (1993).

This process ultimately leads to a relationship that is built on a dialogue between the supplier and individual customers, a mutual learning process, where both parts participate and have adapted to each other. In the process, the customer has simplified her life, and participated in creating something of value. Theoretically, according to Albert O. Hirschman (1972), when you contribute with you're the so called voice in a creative process, you tend to stay loyal with your creation. This type of loyalty is not for sale, but it can be earned.

As the notion One-to-One Marketing indicates, each customer should be considered one at a time, as an individual. She is a thinking, feeling and acting human being! She is not an object, a target market or a segment to be captured.

## Cases

Here are some cases to illustrate the principles of One-to-One Marketing. First a traditional customer club perspective (Club Vertical), second an example of customization of products (Custom Foot), third an example of a complex full service (Streamline) and finally an example where the customer respect is in focus (Gullspång Kraft).

### Club Vertical

The Club Vertical program at Northstar ski resort in California gives each member a separate identification in a wristband (with a computer chip embedded in it). Members have special gates at the lifts, that recognize the member and charges her credit card for the ride.

Northstar charges only for vertical meters skied. You don't have to calculate whether you should buy a one days pass or a week. And you don't have to stand in lines to buy the ticket. The system takes care of that.

Since the system knows at any given moment what run or chairlift a club member is on, it can display real-time messages on boards at the top of each lift. As a result, a member can be notified with personal urgent messages.

Throughout the day and the season, the computer keeps track of every run the skier makes, and can awards individual frequent skiers. In addition, members get discounts for using their "smart cards" with point-of-sale scanners to pay for food, merchandise, lodging and so on. Thereby providing Northstar with important information on buying habits and preferences, also in the restaurants and rental shops.

The information about each individual skier allows Northstar to design individual offers, for example the same amount vertical meters skied as last year. The principle to have the members accounts debited based on the vertical meters skied provides increased flexibility for these customers.

The system has led to an increase in turnover for the resort by 300% (Newell 1997).

### The Custom Foot

The *Custom Foot* is a shoe retail chain in the USA that sells customized shoes, handmade in Italy. The stores only carry samples. They scan and measure your feet (each one of them!) to make exactly the shoes you want, in the size and style you want. They keep the data for your next purchase.

The first time buyer answers a couple of questions regarding her experience with her present shoes, what she likes and how she uses her shoes. There are more optional questions that - if the customer answers - leads to a discount.

There are about 250 different samples in the store to show styles and attributes. A total of 12 million configurations are possible, plus custom design from any picture. Since there is no stock, no bargain sales and rarely no returns the margins are better than average for a shoe store.

The prices are \$125-300 and the delivery takes 3-4 weeks, pick up or home delivered. The customer is finally asked to grade the shoes when she gets them. After the delivery every customer gets a phone call from Custom Foot to make sure she is satisfied with her new shoes.

The only thing the customer doesn't get is the status value of a well known brand. But wouldn't it be possible for a branded shoe supplier to offer customized shoes, built on data franchised from Custom Foot?

### **Streamline**

For centuries Japan had individual home delivery services like *komeya* (rice shop), *sakaya* (liquor shop) or *toyama no kusuriuri* (pharmaceuticals). Today most of this is gone, since nobody is home to receive the deliveries. But maybe it will come back again. Today the concept of individualized home deliveries (Consumer Direct) is an area of growth especially in USA. In the Boston Area there are now 7 competing consumer direct suppliers. One of them is *Streamline*.

Their business is all errands, and they deliver once a week, even when nobody is at home. A special box is placed in the customer garage, to which the streamline staff has access through key code. They deliver groceries, pharmaceuticals, stationery and they also take care of video rentals, dry cleaning, spare keys, photocopying, postal parcels and recycling and charity collections.

The first time a customer is being visited, all the goods in the household is scanned to make a personal shopping list. Both supplier and the family members learn the routine and make it a habit. Streamline builds trust and tries to learn exactly what each family need, even what kind of movies the children like. They have a system called DRO (don't run out), which can remind when its time to replenish a product.

On average, the customer uses 37 minutes weekly to order from Streamline, mainly through the Internet, while the traditional customer uses 3-4 hours a week to shop. The average order is 75 items, of which 10 are standing orders. The start fee is \$49 and then \$30 per month. The share of customer is 85%. Early 1999 Streamline has about 1900 households and grows by 15% per month.

### **Gullspång Kraft**

The Swedish power utility industry was deregulated 1995. Gullspång Kraft met competition after 90 years as monopolist, and decided to reengineer their business process with a strong customer focus. They are even differentiating energy.

They implemented toll-free telephone numbers, call centers with 24h service, improved quality in service, digitized/personalized invoices and even mediation of all kinds of help (craftsmen or service suppliers) when related to electric appliances.

Finally the develop their core product into different types of energy, for example "green" energy that is environmentally friendly produced, i.e. wind or solar power or non-nuclear power (and consequently yield higher price).

But still they found that most of their ideas could be matched by their competitors. How could they position the company sustainable against their competitors to keep their present customers?

The customers in the whole industry were locked in by the meters that the law demands for each supplier. A meter cost about \$300 to change, and serve as a switching barrier that preserves the existing supply structure.

Since the positioning strategy is “We’re on the customers side”, Gullspång runs a lobbying campaign to unchain the customer from the meter compulsion. The rest of the industry was taken by surprise.

In a recent campaign Gullspång call centers even declined many new customers with respect to their economy. Instead they made a list of the interested customers and promised to get back to them as soon as the meter compulsion was cancelled. This created good word of mouth.

Gullspång tries to win the customers trust through quality in all details and commitment to the customers best interest. They improve the customer relationships in a commodity market, get good publicity and shows improved loyalty numbers.

#### Legal protection in Europe

Since individual records is of vital importance in One-to-One Marketing, and the databases grows, there is a growing concern for the privacy issue.

The legal support for the customer privacy is stronger within the European Union than in Japan or USA. Sweden follows the direction from EU. Information about a person must not be collected and processed unless the person gives her permission, and the company explains exactly what it will do with the information.

Still marketers may register information that is “of vital importance for performing the business” without permission. That will probably include means of identification (i.e. name and address) and transactional data (i.e. purchase date, items bought) for a shorter period of time. Direct marketing is considered important for the business.

It is forbidden to register information on ethnical origin, health, political/religious opinions, sexual matters or political membership. A person can require that all her data is given to her, or permanently erased at any time. The Swedish law on personal data is in force since October 1998, and is unprecedented. The period of transition for older handling is three years.

Will customers give their permission for free to any marketer? Maybe the issue of personal trust is becoming even more important. Until today the issue of privacy is more vividly discussed by direct marketing professionals and academics, than customers.

## Conclusion

One-to-One Marketing can be interpreted more as a philosophy than a tool. There is often an untapped opportunity in the One-to-One Marketing principles on traditional mass markets.

You could get competitive advantage by learning from your customers, adapting to that knowledge and earning their loyalty for a long time. But chances are it will not be enough.

To attain a strong relationship such as the one between Hachiko and his master, you need to *earn* the customers trust and loyalty through respect. If you just buy it, she will follow anyone that whistles to her with a better bargain!

Ola P Feurst, 31 March, 1999

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