CUSTOMER FIRST THINKING PODCAST #4

The State of Relationship Marketing: An Interview with Jagdish Sheth, Professor of Marketing at Emory University, Goizueta Business School

In 1983 a Professor at Texas A&M University by the name of Leonard Berry coined the term “relationship marketing” in a paper he presented at an American Marketing Association event.

His basic premise: businesses should focus more on serving existing customers. Now as obvious as that may sound, it seemed heretical in an era dominated by mass advertising. Berry never actually thought his paper was “any kind of breakthrough”; he just figured it was “foolish”, as he put it, that marketing only thought about winning new customers, rarely about retaining them. Yet at the time his argument was so far out of the mainstream that nearly a decade went by before marketers warmed to the idea.

What happened to revive interest was the unraveling of the mass market by the late 1980s. Relationship marketing was deemed by academics to be the antidote to audience fragmentation. Their endorsement led to countless books, papers, conferences, along with a dedicated scholarly journal. But with the rapid adoption of CRM technology in the early 1990s the definition became muddled. Did CRM now mean “customer relationship management”, as in automated after-sale support and service, or “customer relationship marketing”, as in data-driven one-to-one marketing? The idea that relationship marketing simply meant giving customers the attention they deserve was overtaken by the fixation with technology, to the dismay of early proponents.

One of the earliest proponents was Jagdish Sheth, the esteemed Professor of Marketing at Emory University. Last year in a paper he authored called “Revitalizing Relationship Marketing”, Professor Sheth ruefully observed, “The focus on ‘relationship’ in RM got relegated to ‘marketing’.” He wrote that relationship marketing was suffering from an “identity crisis” and that marketers needed to stop treating customers as “ID numbers”. For relationship marketing to mature into a higher order business strategy, he suggested, marketing must shift toward “bonding with customers on an emotional plane”, where “the brand itself acts as a moral compass”, seeking to win a greater “share of heart”.

Professor Sheth favours a new “purpose-driven relationship” where customers feel connected to a brand based on shared values. He reasons that people today are drawn to brands offering a “transcendent” experience, a theory he first advanced twelve years ago in a book called ‘Firms of Endearment”. This more humanistic definition of relationship marketing shares many of the same thematic overtones as the brand purpose movement which is all about businesses making the world a better place.

The convergence of relationship marketing and brand purpose might end up becoming a whole new branch of academic study. And there is no one more qualified to lead that conversation than Jagdish Sheth, given his renowned scholarly work over the years, his many accolades and awards, and his widely acknowledged contribution to the advancement of marketing theory and practice. We started our conversation by considering whether marketers needed to hit the reset button and forget everything they ever learned.

Interview with Jagdish Sheth

Shaw: You recently read the book called, "Firms of Endearment," which is a terrific read I will say. And you start off that book by quoting a line from a Tom Stoppard play where he writes, "It's the best possible time to be alive and almost everything you thought you knew was wrong." Are we in this era - and by we, I mean marketing and business generally - in this era of creative destruction where we just need to hit the reset button - that basically we need to forget what we ever learned and start down the learning path again? Or, and this is a case I would make, that are we actually building on the relationship marketing principles and practices that you first promulgated way back in the 1980s when the concept of relationship marketing was kind of just entering the business lexicon?

Sheth: Yeah. You know, the answer is both are right. There is a creative destruction, but that creative destruction actually is making relationship marketing principles much more implemented surprisingly and more intense. And I'll articulate that in this way. The biggest change since the '90s when we started relationship marketing paradigm is the growth of online ordering or ecommerce. None of us imagined the impact of the internet. It's a global reach, first of all, which means the relationship marketing principles actually have to go global relationship, which is very interesting. And I'll talk about that. But it is a very rich medium. In other words, it is beyond just print. It is beyond just voice. It is a video. And with video, voice, and print coming together, it becomes a very powerful medium. So more and more what we talked about as relationship marketing in a brick and mortar environment now is basically more in a virtual environment. And it's fascinating to see how much bonding is taking place between the customer and the company. Surprisingly, it is not just limited to the consumer customers through social media, as well as through just ecommerce platforms. Like Amazon, for example, you're seeing the success of Amazon Prime, which is a loyalty program. And the loyalty programs are becoming much bigger, much larger in scale with the internet and its global reach. Second thing that's happening is that the relationship in the virtual world, this is so contradictory in our mind or non-intuitive, is actually more emotionally bonding than relationship in person. You know, we all grew up in the brick and mortar area where we thought personal interaction will bond us more. But surprisingly, these virtual interactions whether it is by text messaging, for example, like a WhatsApp platform, whether it is by Facebook, whether it is by, you know, any one of the social platforms or ecommerce platforms. And the last comment Steve I would make is that in this regard, we really have to look at emerging economies leading the world bypassing the PC revolution. So I'm watching China primarily way ahead of Amazon. And way ahead of in fact anything like social media platforms we have. So China has become really a leader. It began with South Korea, but China and because of its scale and the size is where the future is of relationship marketing.

Shaw: So this idea that China has become this mobile first society and is really pushing the envelope around the integration in people's lives, I would agree is hugely apparent. I do wanna tie though back to, I think, a more fundamental principle that, again, was promulgated by yourself and Adrian Payne and many other luminaries of the time back to the mid '80s and '90s, which were exotic words in those days. And I'm really referring here to this idea of having a relationship with the customer. And so in "Firms of Endearment," you talk a lot about the humanism required, or I should say, you argue for a more humanistic marketing model. And I had the good fortune of interviewing Phil Kotler for episode one of this podcast series, and he shares that optimism that you have. So let me just go back in time, the mid '80s, late '90s, really dominated by shareholder first mindset, mentality and businesses. The sort of "greed is good" ideology. And we've seen that ideology be fairly persistent and only now is it starting to be challenged in a significant way. Is that short termism - that ideology - really a thing of the past now? Or are we still trying to convince businesses through the conscious capitalism movement and other forms of expression - are we really trying to convince business to adopt these…still trying to convince them to adopt these relationship principles?

Sheth: It's very fascinating. I actually did research on this one. And I found that the shareholder value as an obsession and the only objective or a mission of the company really begins to evolve right after the first energy crisis of '74, '78 and restructuring of the American economy and maybe global economy. That was a transition point where all of the stakeholders were subordinated, and the shareholder became the biggest obsession or the biggest objective of the board, the chairman, the CEO, the president of the company. And I'll tell you why. The equity market collapsed enormously. Before those days, we had the real conglomerates. And GE is one of the last conglomerates on its way out. Most companies are group companies. In other words, they own hundreds of companies under them. And they're a lot more stakeholder oriented. But because the public equity market dropped enormously, if you look at the data, the debt ratio became outrageous. And most of them were acquired through hostile takeover or even otherwise by private equity companies. And the private equity companies' sole objective is primarily to buy cheap assets, turn them around by breaking them up or whatever you do, cost cutting, that's the time when you use the buzzwords like outsourcing, downsizing, right sizing, re-engineering the corporation. That is the time when the shareholder as a stakeholder became almighty compared to customers, compared to suppliers, compared to community, and compared to employees for example. That was interesting.

Before that one, capitalism was always much more community oriented. And let me tell you why. Great companies in the world always started in small towns. If you look at the industrialization of America at the turn of the last century, early 1900s, they all were towns just like Benton Harbor, Michigan, where Whirlpool is still headquartered, IBM was in Armonk. By the way, that's a small town. That's true of KOHLER, which is a plumbing company in a small town, and this is not limited to America. That was true in Europe. That is true in Asia, India, for example, because that is where the resources were. You will have a riverbed, you will have some iron ore, or whatever it is. And there when you live in a small community, even though you're a wealthy family, founder family, you have a respect for the community. Every Sunday, church is a great equalizer. Not only that, you have managers live next door to you. So they are your neighbors sort of, not just your subordinate. Their children go to the same school as your children do. There's only one school, one church. You have to attend all the memorial services, all the social obligations. Now people treat you with respect because you made the wealth for the whole city or the town. That was America in the industrialization. All through the Midwest, what is the Rust Belt now, if you look at the genesis of corporations that came, whether it's Eli Lilly in Indianapolis, for example, or companies, I can give you a bunch of names. I think that whole stakeholder thing was hijacked when the companies began to move to capital markets like New York City. When they shifted their corporate headquarters like IBM from Armonk to New York, General Electric going from Schenectady which is a small town, actually, and came to New York itself and then Connecticut, for example, which is fascinating. And to me, you're much closer to one stakeholder all the time, constantly reminding you they matter. I think that is how when the private equity hostile takeover really created this amplification. The last comment I'll make. This is how companies like Berkshire Hathaway, Warren Buffett made money. With money because there was no public equity market that capital become oppressive, especially during the Carter administration where the prime rate was 9%, 9.5%, you just couldn't survive financially, no cash flow. And then, by the way, we came out with techniques like, you know, economic value added, EVA. I remember teaching that stuff. And I was counter balancing. And, by the way, the genesis of the book, "The Firms of Endearment" came at that time in my mind after capitalism was getting corrupted by one stakeholder rather than the role of capitalism is to create value for all five stakeholders. (14.44)

Shaw: So it's interesting because my father worked for "Reader's Digest" for 35 years. And as you know, was based in Pleasantville, and to your point, small town outside New York and family run. And the entire organization had a very unique and familial culture, which kept my dad there for over three decades. But there was a change that occurred when it went public, when the family owners died, and the baton was passed to this group of fairly... how should I put this, ambitious senior managers who wanted their stake in the business. And what have we seen with "Reader's Digest" is a dramatic fall off the cliff in their sustainability as a business. So it's an interesting cautionary tale that reflects exactly the sort of trends that you're talking about. I wanna come back to this question of conscious capitalism and the synchronicity with original principles that you advocate. I wanna come back to that subject. But you also mentioned the use of the internet and connectivity today, this virtual relationship that's going on that you were arguing earlier is actually, you know, more significant than an offline relationship. And, you know, this expression we've entered this age of conversation … And it's obviously thanks to social media platforms. But I'm just wondering, your observation of marketing generally, it seems to me that marketers are still struggling with the use of social media. They're still defaulting to a channel mindset. They're still defaulting to a broadcast messaging model. Why do you think marketers are having a tough time with this transition to platforms, which would suggest that they can have these one-to-one relationships that you've been talking about for 30 years?

Sheth: The answer is historical. Marketing as we know today, really began with the soap industry. In England Pears' Soap is the real founder of modern marketing, including principles of branding, self-promotions, creating this huge excitement. And that one was based upon the broadcast model as you called, one-to-many communication. With the rise of mass market, which is what happened when we transitioned from the agricultural to the industrial society, we made the mass production but mass consumption society where actually the mass market was the right one. And from mass market, we began to learn that customers are different mostly by socioeconomic classes in those days. So we began to segment them. We'll have a segment of rich people versus middle class people versus poor people, and came out with different automobiles, different price points, etc. At that time, technology in a mass market was not a great enabler to do one-to-one marketing. Now, in a B2B environment, business to business, it was more possible and therefore around the time when I was advocating relationship marketing, you saw that now many companies started creating key account management. In fact, I was advisor to AT&T where we were bringing about key account management for any business customer who generated 5 million or more revenues annually, we appointed three people in charge. A relationship manager or a key account manager, a technical manager who was all the network guy, and a market administrator, which was all the contracts. Very legally stuff, obviously. Now that key account management became strategic account management, global account management. But in the mass market for the first time, for two reasons, you see the rise of this age of conversation or one-on-one. Companies are struggling to transition. And it is not going to happen from packaged goods companies where the marketing routes are, it is happening, surprisingly, with services companies. Because we shifted towards services where I have a direct relationship with you, I have an account. So telephone companies, utility companies, banks, for example, but much more it began to happen with technology companies. And when the technologies companies went on a subscription model, now I have a relationship and through technology I could personalize. We're all struggling from, you know, accessibility to convenience. And how do I do mass personalization or mass customization. So my view is that it is going to happen, is happening more using the technology by the services organizations more so then by the private organization. (19.40)

Shaw: It's an interesting question. I mean, if we look at telcos, if we look at banks, for that matter, I mean, there's certain obvious aspiration there. But frankly, at the end of the day, telcos are in the business of selling products and really pursue fairly predatory sales practices. And banks, you could argue, do the same. So does it come back to, again, this idea of values and principles? Because the companies that succeeded, this seemed to me like USAA, you name them in your book "Firms of Endearment", do have a strong set of values and principles that make them the number one Net Promoter Score in the world, I think. Just go back to this issue, can you only succeed here in making this transformation, and this transition if, in fact, you really have to start at the top with a set of fundamental principles?

Sheth: Right. And I totally agree. And the way to do it is and I found any time you want to bring about a change in an organization like if this is an institution or even an academic institution, but this definitely there are two hot buttons with which you can bring about change by getting their attention. One, it is more cost efficient, first of all, or competitively you're at a disadvantage if you don't do it. So in the case of age of conversation, what we are pushing now is to say, actually, the customer can be your pseudo employee. They can do a lot more work for you, if you understand how what they want, their aspirations, their frustrations, and their frictions in life. And those will become customer centric and listening to the customers. And we used to do that in market research at one time. At Whirlpool we had a cool line where incoming calls, we converted into a market research tool, listening post actually, turns out to be. But I think now the customer is willing to do quite a lot in a digital environment. They can produce your product, for example. It's really fascinating because digital products like print books, you know, or publications or videos, customers can do it also. So it's a question. So showing to them that it is actually engaging with the customer, not only you learn a lot about the customer viewpoints and come out with innovations, but customers can do amplifying your brand, for example, they become good influencers, brand promoters. Engage them in some fashion. So that seems to be resonating now because people see the bottom line cost reduction in the process. (22.22).

Shaw: But isn't the other challenge here is that marketing still sees itself as a spear carrier for the brand? And in some companies, it's still the pretty picture department. Is the issue here that marketing really needs to redefine its role along the lines that you've just been describing, which is be the voice and advocate for the customer and be able to encourage your organization to adopt this customer first mindset that's so necessary in order to make the transition?

Sheth: You're absolutely right. And actually, following that argument, the how to become customer centric? I have a book along with Raj Sisodia, David Wolfe who wrote, "Firms of Endearment" with me, this book is called, "4 A's of Marketing." You know, it sounds like nothing but a take off on the four P's, but that's not the case. So we said, "Let's take a customer viewpoint. First of all, let's define the customer." Customer is not just buyer, marketing got all organized around buying behavior. But customer is a user also and a payer also at least. And customer is an influencer, there are four roles of a customer. And therefore, if you look at it from the payer viewpoint, their value creation is affordability. They would like to buy cheaper for the same quality. How can you do it? Accessibility is what the buyer wants. A buyer does not want a friction hassle to do business in the market transaction. So how do you make it frictionless, for example? How are you available and accessible anywhere and conveniently anywhere in the world for that matter? So that's accessibility. We talked about acceptability and, by the way, acceptability is not just physical acceptability or performance acceptability, but also psychological acceptability, image problems because of the social value of products and symbols, etc. And awareness is the one where how do you provide them the knowledge? And this "4 A's of Marketing" book has done a phenomenal job of shifting the thinking from brand and a product to customers. And that seems to be a really powerful paradigm. And, by the way, we did about 550 case studies using student projects in the classroom over 15 years and it clearly shows you, once you take that framework, now you realize why Iridium failed and cellular telephony succeeded. Why [inaudible] failed and [inaudible] which is a same mobile platform is doing well? Or why Roomba the housecleaning robot succeeded so well, which marketer would not have been able to understand.

Shaw: So, just to recap, affordability, accessibility, acceptability, and awareness. Those are the four A's?

Sheth: Yes, sir…

Shaw: Can I offer you up another A which this idea of assistance. And this is, again, you know, a fairly new term that's popped into the lexicon that we're in this age of assistance, where the mandate of marketing now is shifting in this real time world to providing help and it's in the moment, it's at the exact moment of need. Does that line up with your thinking?

Sheth: Absolutely. And I think you're so right. The three A's I was very comfortable because I have a book on customer behavior, a textbook actually. That is where I strongly advocated that even in consumer markets user is not the same as a buyer and a payer. A child is a user in the family but he or she is not a buyer. Buyer may be the husband and the payer may be the budget manager usually turns out to be otherwise in the family. And so in business to business, we have three departments. You know, there's an accounts payable department. There's a procurement department, obviously, and there's a quality assurance department who are representing the user. In family, if you define family as an organization, a household as an organization unit, with many people living in formal - clearly not planned out and all the stuff we can contrast between a distance enterprise and the household enterprise - but basically fundamentally. So three A's, I was very comfortable. User, payer, buyer, user is looking for performance, buyer is looking for convenience, and payer is looking for, in fact, price. So how do you create a price value, convenience value, and performance value? Fourth A we added, let's see if there's a parallel with four P. And you're so right, Steve, everybody has given me advice about the fourth A to be different than what we have. And I feel the same way - I will change the fourth A to here are three options, assistance is what you suggested, which is a great idea. People have suggested accountability. Customers want you to be held accountable more and more. Because they find no recourse any other way except by law. Okay? And part one that has come about, which is what Coca-Cola did actually, though we didn't see as formula comes from Coca-Cola. Coca-Cola said every job is in the business of creating value for customers. How can we make Coca-Cola brand more acceptable, more affordable, more accessible? That's the whole idea. Then they added a fourth one, a European manager who was in charge of Coca-Cola Europe said we need to add a fourth term called activation. And that's a managerial view. You know, that's a brand product view. But I think from a customer's viewpoint, assistance is a great, great idea. (28.19)

Shaw: So it's interesting because if you look at your standard value proposition, you're sitting always in the middle of these functional benefits. And as you move to the perimeter if you think of them as concentric rings. The outside ring is this idea of brand reputation. It seems to me that we've entered a world where the inverse is true, that we've got this rampant product parity. We've got this phenomenal noise in the market and distractions, which customers and consumers are trying to insulate themselves from increasingly. In the end, what becomes the tiebreaker here? Because all the things we've been describing, your ability to service customers, your ability to give them convenience, your ability to meet their performance expectations, your ability to deliver those at a right price point. All of that stuff is absolute requirements of marketing. But in the end, what does the customer truly care about? And I would argue the only thing that the customer really cares about is that the company actually cares about them.

Sheth: You're so right. To me, brand reputation, quality, are now table stakes. That's why to do business alone, you have to have a branded product differentiated any way you want. But that is not going to give you a competitive advantage anymore. A competitive advantage comes differently. The new intangible is to share, win the share of heart of your customer. Not the share of wallet.

Shaw: I like that.

Sheth: Which is we started with relationship marketing. As you know, in the aggregate, it was market share, then we said, "No, let's look at share of wallet because the customer can buy more than what you're just selling one product. You can be a one stop shop, lifetime value of the customer, and all those concepts we created." But now share of wallet is a CRM, IT-based, artificial intelligence, automated activities. So what is the next platform from two relationships? And that is to bond on an emotional basis or emotive basis where the buzzword that is very appropriate, which I created about a decade ago, actually, called the share of heart. How do you win the share of heart? Now, more and more. So we say, "Okay, what are the things that we know about human beings which appeals to the heart as opposed to the brain as opposed to the body," right? (30.45)

Shaw: Right. Well, it's this idea of hearts and minds, you can make a good strong cognitive argument. But in the end, if you don't feel that you want to have a relationship with that person or that brand, you don't, frankly. And everything else is a commercial transaction. And you talk a lot about that, right? The shift from transactions to transcendence, which I love that concept of people seeking a higher spiritual ground in their lives, which they feel had been hollowed out. They've been dehumanized. You know, we're collapsing as a society into smaller and smaller…atomization of society. All of those things. It seems to me there's a return now - and you talk about it in that book, "Firms of Endearment" to, you know, more transcendent value. A search for meaning in life. And that brands now have to connect with the meaning that customers, people are aspiring to achieve.

Sheth: Absolutely. And in many ways it is sort of predictable as we high up on Maslow's need hierarchy. The safety survival is now pretty much as showed in advanced economies, either by union, by government with all the product protection laws in the jury system, the judicial system, etc. So we move on to love and affection. But now people really are more into self-actualization. As we mentioned in the "Firms of Endearment" book that more and more consumers including young people now because it is so affluent already, that basic needs are taken care if you take the share of how much we spend on food, it is the lowest in the world. We spend less than 11%, 12% of our annual income on food, which is mind boggling because in emerging economies it will be 65% to 70% of the monthly budget of a family. So given all the situation, how do you connect to the customer or the consumer customer at that self-actualization level, which gets into meaning for life, purpose driven. And that's why every brand that I know at least in consumer products whether those are Unilever brands, Procter & Gamble brands, Nestle brands, makes no difference. They're all latching on to the concept of purpose.

Shaw: And you see that with Unilever specifically. [CEO] Polman really advocates for companies doing social good. Yet, you know, he still struggles with his activist investors and still has to fight that good battle and back to the point we're making earlier about who really manages the levers of a business. And as long as the shareholders rule, the stakeholders are, whoever those stakeholders are, whether it's employees or customers, etc. come second, third, fourth, and fifth.

Sheth: And, by the way, I must tell you, the phenomenal success, the way they're measured, nonfinancial very interestingly, they produced a very long relative to a television advertisement almost like one minute long more for the internet, essentially a commercial. Where they linked their product which is one of those soaps very popular in India, for example, it's a hand washing soap essentially, removes the dirt and the germs, linked it with a very powerful, powerful scenario about a totally disabled handicapped person who has lost his leg walking, basically struggling, I don't know, one or two kilometers going to the temple to praise God to say, "I'm so thankful to you that my son is now five years old, because most young people die because of the bacteria. They don't wash their hands properly," etc. I mean, that commercial moves you when you watch it. And I was told it got almost 100 million viewers out of nowhere. (34.47)

Shaw: Yeah, I think you could make the case that brands can create movements if they attach themselves to the right values. And those are the values of the audiences that they're trying to serve. Although Unilever is an interesting example, and as much as I admire them they do struggle with, you know, the balance of commercial interest. They have a skin whitening product, which is quite popular in India. And, you know, the face of the, you know, Dove, which is their product that promotes the female image, self-image, it's a contradictory product, right? But it's a cultural fit with a society that, you know, for whatever reasons, really buys these bleaching products. So, you know, it's hard to do that dance. You either are or you aren't. And you can't have these contradictory or dissonant notes in your brand portfolio if, in fact, you're trying to aspire to these values.

Sheth: Absolutely. That's Fair & Lovely, I think is the brand name they're using. You're right. It's very successful product. So often, therefore, nowadays in the CPG industry, consumer packaged goods industry is the kinds of names that we just talked about. There's a huge debate that if you go back to the fundamental purpose-driven life or purpose-driven corporation, then what brands we should keep and what brands we should die with? And all brands, to make things consistent because customers now do connect the dot. This brand is owned by the same company as another brand. If you look at the portfolio, and I'm not defending anybody, but you will see they have a nice, clean business, you know, Tom and Jerry brand for example.

Shaw: Yeah, the Ben & Jerry's brand, yeah.

Sheth: Yeah, Ben & Jerry's. And so, you know, given that that kind of brands, which has always been driven by some cause, well, can they buy other ice cream brand? They want to dominate in the ice cream business. Yes, you can do it. But all of the brands that you own have a similar underlying DNA of some sort. And that's a very interesting way of thinking. I don't know what's gonna happen because right now they're all struggling from a shareholder viewpoint.

Shaw: Yes, yes. Another area I do want to explore and, in this age, where, you know, one business model after the other is being dismantled through disruptive startups and new technologies, etc., etc. I wanna go back to a point of view that you expressed, you know, many years ago that in the industrial era of mass production, you know, most marketing was built on direct relationships between producers and buyers. And you talked about this earlier, the shift to mass production and mass marketing. But here's the thing. So the distribution channels were set up for a reason to make it easy for producers to take their products to market. And my question around this is, we're now in this age of platform ecosystems and whether you're talking about Amazon, or Facebook, or any of these, you know, massive audiences that have a singular relationship with a supplier. In this platform economy with its walled gardens, are they just not another form of intermediary between producers and buyers? And if that's the case, is it going to be increasingly difficult for companies to own that relationship with the end customer when an Amazon can outflank them and even introduce their own products almost at will? (38.25)

Sheth: I mean, you're absolutely right Steve that what we have right now is a disintermediation and re-intermediation. In other words, traditional intermediaries are all phasing out, brick and mortar type, and the new intermediaries are coming, which are mostly online virtual communities. Here is the way it's changing. Very fascinating, many of the manufactured brands, typical product brands, you know, for example, or service brands. Service will go directly anyhow because they have a direct account relationship. But many of the manufactured brands, automobiles, appliances, definitely packaged goods industries now have their own website. In other words, I can buy directly from the company using the internet. In other words, rather than go through an intermediary like Amazon, and here are the differences. There is a book that I have published many years ago called, "The Rule of Three," in strategy. It's very popular. In that role what we say is that you have to decide what kind of a player you want to be. Do you want to be a volume-driven scale-oriented player? There is only room for three of them. Whether you are right now it's happening in cloud computing, you know, the Amazon of the world, the Microsoft, and IBM wants to be the third player by buying out Red Hat, for example. Or you have to be a niche player. So are you a Sears, Roebuck or are you a Foot Locker, for example? Are you a J. C. Penney or are you The Limited? Because if you are a niche company, you will have to be margin driven, you don't have the scale. And if you're a volume-driven company, you have to have the scale. So given that situation, the idea is very simple that what you have to do is that if you're a niche company, more likely you will also go directly online yourself. And what you will do is to sell your brand if you're a scale-oriented manufacturer through companies like Walmart which is going online - through Amazon. It's basically omni-channel as we call it. You have no choice. So the answer is both yes and no that I can go directly. Now fortunately, Internet does allow me with all of the text mining and all the video communication now, I can even though I sell it through somebody else, I can do the full marketing not only just on my brand, but as you called, engage in the age of conversation. So it's possible.

Shaw: You know, it's interesting because I just wonder as we flash forward, somewhere in the medium to near future whether customers will have the select brands that they allow into their lives. And it could be an Amazon just on its value proposition alone, which makes it easier to find products at the right price. It could be a services company or whatever. They have select brands they'd allow into their lives because they trust those companies to do the right thing. That everybody else gets consigned to the brand gulag - market anonymity, and have to supply customers and consumers and have no chance of forming that direct relationship. Is that a likely future do you think? That in fact only a few brands will survive in different categories based on that trust factor?

Sheth: It's a cycle, when you have too many brands, which is typically the case when the industry is growing very fast, at the turn of the last century we had in the automobile business alone in America, 125 brands. Ultimately they got rationalized into Ford, GM through consolidation and Chrysler. Rule of three prevails. I've done this analysis over agricultural equipment, appliances industries. So it's a cycle. So a cycle is that when you have too many brands they have local markets, they don't have the scale economies. Somebody figures out how to make quality high and cost low like Model T under Henry Ford or Kodak in Canada or, you know, Timex in watches. I can give you examples. And then they became mass producers in many ways. So it shifts to our rationalization, shake out mergers into three brands. Once you have those three brands, which is like a stable, mature economy, but no growth, they begin to break up into niche brands. Right now beer industry is going through that. But all the three big beer companies are struggling to survive from a financial viewpoint. We see all of these craft breweries growing. My God, Atlanta alone must have 90 breweries going. (43.31)

Shaw: It's true. And we see the same thing here. So you're saying there's a long tail to exploit here. And, given the economies today, that is technology is cheaper than ever, it's actually feasible to serve that long tail, whereas in the past, it wasn't really.

Sheth: Yes. And then there is this cycle of industry consolidation shake out, three big players dominating, controlling 70% to 90% market share. Then they begin to generate non-traditional competitors, niche players and they come out. I mean, beer industry is classic, our automobile industry almost classic. I watch that in appliances industry because of my work at Whirlpool many years ago. It's fascinating. Every industry I look at it, you see while the big boys when they're struggling, the niche players come out of nowhere.

Shaw: Sure.

Sheth: They're not competitors, but they're market opportunity.

Shaw: Yeah, and they're coming at those big companies in greater numbers than ever before, thanks, in part to digital transformation and disruption.

Sheth: Absolutely.

Shaw: Now, I just wanna shift to one other topic in the time that we have remaining here, Jag, and this is one close to my heart because I see it every day in the clients that we deal with and elsewhere obviously. And that is a broken marketing model. And Forrester recently came out with a report basically acknowledging, you know, that that is a vestige of a previous era of the broadcast media channel based here at the planning model, the annual planning model, frankly is irrelevant today. But no one's found a replacement for it. I'm just wondering if...and marketing textbooks, I might add, don't offer a lot of help, right? They still compartmentalize marketing into all these different channel-based applications of marketing when, in fact, even Phil Kotler is arguing there's a more holistic model that's required. So everybody's sort of making stuff up as they go. And, you know, until the future fully reveals itself, I guess, you know, maybe that's gonna be the case for some time to come almost improvised marketing, I should say. Is the biggest obstacle facing marketers today, the fact that they have not figured this out, that there is no new general theory of marketing that's been introduced or promulgated or even taught because no one's quite figured out what that should look like.

Sheth: I think, Steve, you're absolutely right. We are in that Twilight Zone. What we learned very well whether it is back to the commodity school, the functional school, the institutional school, which is wholesale, retail commodities would be shopping goods, you know, convenience goods, emergency goods, specialty goods kind of it. That all was great thinking. We shifted more and more to a managerial marketing with things like four P's of marketing. We went to strategic marketing, which is where customer led the way in many ways in the late '60s, early '70s, when strategic planning was becoming important. Now, we're searching for a theory that would be more a societal marketing. In other words, how can marketing be a positive source for society, fundamentally, the same slogan that we all used, "Doing well by doing good," or, "Doing well by being good." You don't have to do good, just being good, that's one point, which, again, ties in with the concept we have in, "Firms of Endearment," very heavily promoted by Michael Porter for shared value concept. Remember, he's an economist who believed that shareholder value is the only thing in life like Milton Friedman, but he has backed up and said the role of the business is actually to create share value. You create value for yourself and also for the society. And the triple bottom line initiative by United Nations and they are putting pressure through using government policymakers to put pressure on corporations. So I believe that we will emerge with a new theory of some sort in marketing, whether it's an indigenous theory created by marketing professors, scholars, or practitioners. Or it is done by some outside disciplines that we embrace essentially. (47.52)

Shaw: Well, it just seems as a practitioner myself, it's drip, drip, drip, right? And even, you know, I've been a lifelong database and relationship marketer, as you know, and, you know, it's been nice to see the market gradually, slowly tilt in our direction. But I keep thinking, "Oh, my goodness, there's still a long way to go." And one of the areas that frustrates me the most is this, the money equation. Because marketing budgets are still allocated on a funding formula that makes no sense whatsoever. You know, it's a fixed allocation generally of total revenues and how it gets spent is even more mysterious. And marketers have never done themselves any favors by not being able to figure out their contribution to the business, you know, apart from some very high-level indicators, is not the biggest barrier and we've talked about many today - the biggest barrier in fact not cracking the code on the funding formula. Like when you talk about, and I'm totally there with you, adoption of social values, I mean, it's a whole priesthood forming now around that concept. But unless the money equation is solved, the CFO is still sitting there, you know, up on the top floor, you know, crossing out budget line item. So how do we cross the Rubicon here I guess is my question?

Sheth: Sure. There are only two approaches. You hit the nail on the head. Problem is not with the marketing department. But the problem is generally accepted accounting principles, the GAAP formula. Because our accounting system began in the industrial age, where everything was, you start with the raw material due to the work in progress. I studied accounting in my younger days, and I remember, what do you put in your balance sheet for example? You do value add from raw material to the market. For the first time, and accounting principles will not change without the four big accounting firms agreeing, government and the Internal Revenue Service, or Canada Revenue, Canada in your case, agreeing to the same thing that here are the new accounting principles. That's the Twilight Zone we are going through. But let me tell you what we are doing in the meanwhile. What we are doing is a dual accounting system, a shadow accounting system where we look at the revenue as we have done. You remember our 90 days...I mean, the '90s, plotting the curve by customer and the revenue from the largest customer to the smallest customer, account by account. And of course, it's a typical Pareto's law 20/80 ratio, right? We know all that. Every salesperson knows it. Everybody in the organization knows this is a 20/80 ratio, the long tail that you talked about. What we don't know is the cost associated of serving that customer. All post factory, X factory cost. And, by the way, no data in companies, product centric companies have cost allocations. So we created a Activity Based Costing, ABC, which is a managerial tool, very popular as you know. And now we've gathered information and reallocated the cost, not from the product departments or the product categories or brand management system, accounting, these all are accounting, but you put it by account by account how much does it cost. And lo and behold, what you find is that if 20% of your customers control 80% of your revenue, 10% of your customers deliver the profit 90%. So all of a sudden, now you're realizing that the fundamental principle from a customer centricity viewpoint is cross subsidization. That the less revenue generating customers actually are costing you more, your margins are not there. And you're trying to make it up among your big accounts, whoever the big accounts are, heavy users in general. But every user says the competition is intense. So the top shore accounts you never make money because they have a huge buying power. The next set of accounts you make money then, again, the profitability call comes down. So we use that ABC - activity-based costing - which the finance VP understands, because he's a numbers guy. And you begin to now reallocate your resources more selectively. So unlike the typical gross budget or segmentation-based budget, now you do account by account budgeting, if possible. In services, it's done much easier, because you only have, let's say, under by the professional services, 4,000 clients or something like that. And you can do this thing. I did it for one of the large accounting cum consulting companies, 4,000 clients. Only 400 were profitable and we decided to relocate the offices around those clients, so we are closer to them, and make sure you create a stickiness among those clients, and we said goodbye to hundreds and hundreds of clients. (53.09)

Shaw: Before I close out our conversation today. And I'm very reluctant to do that because this has been a Master's class in marketing for me personally. You know, I just want the whole concept Net Promoter Score, which is not a hard number. But the idea of setting that as a beacon metric, and then attaching to that the driver variables, I think is one way companies are, that I've seen anyway, are trying to go about the argument to the C-suite, that if we do the right thing here and drive up our NPS, that is a loyalty and likelihood to refer, that's a path to profits. And, you know, obviously, Bain & Company started to talk about that back in the mid '90s, around the time, you know, obviously, you were talking about relationship marketing. I wanna ask you one final question here. You know, back in the mid '80s or '90s, and you've been a prolific writer on this subject for so many years. You must be really gratified all these years later to really see these principles now being adopted really, fairly widely, that is, relationship marketing is accepted, acknowledge discipline. And I would argue, we're about to enter the golden age of relationship marketing. Would you agree with that?

Sheth: Oh, yeah, absolutely. It's very similar to the quality movement that we suddenly woke up after the energy crisis becoming globally noncompetitive, upon taking over. Malcolm Baldrige Award was created and we put processes in place to say quality matters and create a qualities czar, which means across all of the departments, there's one corporate person like an executive assistant who may have a title, VP of, you know, quality reporting directly to the chairman, or the board, or something like that. Similarly, we have we have done recently about the customer sustainability environmental aspect. Now you have a Chief Sustainability Officer. I think we need to create a separate position at a corporate level called Chief Customer Officer. Not a part of the marketing department or each one of the product divisions or business units or subsidiaries. This is a corporate function like an IT function. You have a CIO. You have a CFO. If there was one called Chief Customer Officer coordinating across everything else, not just in charge of the brand and brand reputation, but actually having the capacity to allocate resources. I think, to me, I've been advocating this. So it's a staff function where it needs to change because of the staff function, you are in every board meeting. Board members listen to you who are representative of the shareholders. It just goes on and on. So that's what I have recommended, creating a place, whether it does happen in a B2B environment, there are about half a dozen companies where they've taken and created a Chief Customer Officer and nowadays, they're calling it Growth Officer even. And the nice thing about Chief Customer Officer is that it is beyond organic growth because they are also masters at business development.

Shaw: Well, it also puts the voice of the customer in the C-suite which is I think all important today. And this is back to are we serving the shareholders? Are we serving the stakeholders? Are we serving the shareholders by serving the stakeholders becomes the equation.

Sheth: That is correct.

Shaw: So, Jag, this has been a wonderful conversation. I could go on for some time. And I just wanna thank you very much for a very informative and inspiring conversation.

Sheth: Thank you, Steve.