CUSTOMER FIRST THINKING PODCAST #5

1:1 Marketing: An Interview with Don Peppers, Marketing Oracle and CX Expert

In 1993, AT&T launched a marketing campaign called "You Will". In a series of memorable TV ads, it depicted future applications of technology that turned out to be eerily accurate. Each commercial showcased a different product innovation AT&T had been working on. "Have you ever had an assistant who lived in your Computer?", one commercial asks. Another begins by wondering, "Have you ever gotten a phone call on your wrist?". Each commercial ended with the signoff: "You will". Almost all the scenarios, from videoconferencing to self-service kiosks to video on demand, eventually came true (just not attributable to AT&T, the one prediction it fumbled).

It was a time of technological optimism when the interactive future seemed excitingly close. That year the World Wide Web had become freely available to the public at large. Services like Prodigy and Compuserve were already offering online subscribers dial-up access to a broad range of networked services. U.S. Vice President Al Gore earned notoriety heralding the "information superhighway". And the launch of the Mosaic browser ignited the digitization of commerce.

This revolution in communications technology gave hope to marketers agonizing over the decline of mass media. And that year they found inspiration in a book called "The One to One Future: Building Relationships One Customer at a Time" written by Don Peppers and Martha Rogers. Just like the AT&T campaign, the book imagined what the near future might look like due to rapid technological change, specifically the rise of individually addressable media. Intended as a "guidebook for competing in the 1:1 future", the book argued that marketing would need to "put customers first" to succeed and that would only be possible by building "the deepest, most trusting relationships" with customers.

A giant best-seller at the time, the book made "one-to-one" marketing the buzzword of the decade. Soon after, Peppers and Rogers parlayed their fame into a major consultancy business. Their names became synonymous with the rise of interactive marketing. Today, a quarter century later, the future has finally caught up with many of their predictions.

Peppers and Rogers belong to the pantheon of visionary marketers who laid the groundwork for the widespread adoption of relationship marketing principles and practices. Don Peppers remains an ardent proponent of putting customers first, continuing to address marketing audiences everywhere on its importance. Notwithstanding the immense strides made in technology, Peppers says that improving the customer experience "represents an immense problem to solve" for most businesses. And while many of his original ideas have become mainstream, Peppers recognizes that many businesses are still struggling to fully catch up to the one-to-one future he envisioned a quarter century ago. We started by asking if he and Martha had taken time to celebrate the 25th publishing anniversary of the book.

Peppers: No, we didn't. We thought about it. Some people urged just to do it, but, you know, 25 years is like two and a half centuries, internet time. We just didn't want to call that much attention to the fact that these ideas are so well established. It's funny. We thought in looking at it that it might send the wrong message. We have an active business right now. I'm going around the world speaking all the time, right? I'm headed to Malaysia and Borneo next week, for instance. So we wanna continue to maintain the impression that our speaking and our thoughts are relevant and modern.

Shaw: Modern. Well, I mean, that is what was so remarkable about your work at the time. It was visionary. It was prescient. It predated the internet when it was published by a year or two, anyway. Looking back on this: 25 years have elapsed. You got a lot of predictions right. I mean, it is amazing to read that book and appreciate just how much you foresaw the future. And a lot of those predictions you were exactly right on and some references you weren't, but I'm just curious to get your perspective on what did you feel you really got right and where were the predictions that never quite materialized the way you thought they might?

Peppers: Well, I think one prediction we got right, smack dab right was the title of chapter eight, "Take Products to Customers, Not Customers to Products," basically talking about ecommerce, which we felt would be dramatically impactful once ubiquitous interactivity occurred. And it turned out that that was exactly right. We talked about the issue of managing customers, not just products because traditional marketing was all about product management, brand management. We talked about products having a unique selling proposition. It was unique to the product, not to the customer. And we felt that offering products that were unique to customers, whether they were mass customized or just put forward in a very relevant, personally relevant pitch, we thought that was the future. We did talk about the mechanics of managing the marketing process. And one of the first things we suggested was that companies needed to begin thinking about their businesses in terms of individual customers and their share of customer with particular customers. And when you think about this in that way, you'll realize that share of customer is not just different in scale than share of market, it's different in quality also. When you talk about market share, you're talking about how many undifferentiated, interchangeable transactions do you have with a market of anonymous buyers, basically, what's your market share? And, of course, the more independent transactions you want to sell, the more products you wanna sell, the lower you have to price it on the margins. So it's economics 101, to get a higher volume, you have to reduce your price a little bit. So with every increased point of market share, our argument was that the unit profit would be going down. And the reason for that is that equilibriums, right, when supply reaches demand, there's no more profit to be had. And so that's where it goes. However, when you're selling to individual customers, when you look at your share of customer, the more you sell to any particular customer, the easier it is to sell to that customer, the less cost there is involved and therefore the more profit you can actually make per unit, the more you sell to a particular customer. So we called the difference between that kind of, economies of scope as opposed to economies of scale. Rather than the scale of your operation, what's the scope of your relationship with a particular customer because the bigger the scope was, the more profitable that customer is likely to be. So those are all things basically we talked about. I think we got them pretty right. We had a few science fiction predictions in our final chapter which we called "Society at Light Speed," we talked about, in that chapter, we talked about, very clearly, about the gig economy, the rise of the gig economy. We talked a lot about remote work. We call it telecommuting, I think, but people would work without being in offices anymore. And I think everybody's seen that. That's my understanding that IBM doesn't even have offices for two-thirds of its employees anymore. They hit the hotel when they come into the office. There was one prediction we got really wrong and that was in chapter nine, "Make Money Protecting Privacy, Not Threatening It." Our argument was that consumers would become worried about the amount of personal information that was out there on them and that they would resist providing more information to the marketers to just selling to them. And that would create a business opportunity for companies that we called "privacy buffers". basically intermediaries. Think of a company that would come to you and say, ''Mr. Smith, why don't you let us know everything you can about your personal life, your family life, the products you buy and wear, the brands that you like, your preferences, etc. And we are going to make that information available to vendors who are selling stuff to you, but without your identification. Without your name and email address. So they won't be able to identify you except they'll know that this is an anonymous customer who wants things this way and then we will represent your interests and then we'll make money in that transaction either by taking a piece of the action or by charging you a fee or whatever." We thought that there was a business opportunity in this, but, you know, there isn't because, for the most part, I think people just really aren't as concerned with their privacy as we thought they would be, frankly. (10.28)

Shaw: It's an interesting point. But given the privacy intrusions, we've seen the data breaches, the stricter regulations both at the state level in the US, in your state, I think. And as well overseas, privacy is reentering the conversation. And it's a good departure point to talk about the, you know, the one thing you preached and have preached it over the years is, is the concept, one-to-one or individualized marketing and data is fundamental to that, clearly. And there needs to be this reciprocal pact with the customer that you're gonna treat that data with the respect it deserves if I'm gonna give it to you. But is that conversation gonna be reopened now with people's concerns over the specter of data piracy?

Peppers: Oh, yeah. I think it's already been reopened. And maybe, maybe, our prediction will come true some or later. It may be that we just haven't waited long enough to see privacy buffers, privacy intermediaries spring up as a business opportunity. But there are a number of ways that the privacy problem can be solved going forward. One of them is privacy buffers. Another possibility would be some sort of a Blockchain operating world wide web. Imagine a world wide web where, in fact, in order to link to someone else's website, you had to get their permission. You had to secure permission, let's say. That was, by the way, the original concept behind hyper-connection, hyperlinks, conceived by Tim Berners-Lee, but then when HTML was created, the engineers used just one way linking. So I can't prevent you from linking to one of my online properties. You can do it if you want to. I have nothing to say about it. And that dramatically increased the rapidity of growth of the internet as we know. However it also decimated the publishing business because now, publishing, they can't control their information. They don't know who's watching it or who's doing it, who's seeing it. And it led to all sorts of free web services, totally free web services. But as the saying goes, "If you're online and the product is free where you just don't understand the business model, you're the product," right? So you see everybody from Google and Facebook to Amazon, maybe not so much Amazon, but a lot of online vendors now basically traffic in information about their viewers. Their viewers, their users are not really their customers, their customers are the advertisers who are paying them for the information. And so it's possible that some sort of Blockchain technology might be combined with HTTP. So instead of just having a, you know, the HTTPS meaning a secure hyperlink connection, you can have an HTTB connection, meaning it's a Bitcoin or Blockchain, a Blockchain-enabled connection so that you have a validated online web under Blockchain and you have the unvalidated Wild West web that we have today where anybody could put anything up, fake news, which is rampant and, you know, and users are the product being sold. I'm optimistic about solving the privacy dilemma. I don't think it's going to bring down society, frankly. I think, despite everybody's fears, I think that every time there's another data breach or fake news scandal or, you know, hacking by malignant governments, you're seeing more interest in some sort of solution. I think it'll come. (14.55).

Shaw: We've seen a lot of technological project, advancements are going to accelerate as we all recognize between AI and 5G and IoT, etc., etc., etc. We've seen, you know, rapid adoption of mobile technologies. We're slowly becoming a mobile-first society. China's already there, living off their mobile devices. Does this all mean that we've really entered this golden age of relationship marketing, as you described it way back in 1993, or, and here's the other side to this, I think. A lot of businesses, and you speak at a lot of events and I imagine are speaking to a lot of folks day to day. Are a lot of businesses still struggling with these basic concepts that you described? I mean, the whole concept of customer share is not language I hear very often. Are companies still struggling to get out of the starting gate and with even the basic concepts of one-to-one marketing vis-a-vis the startups who have a blank slate, don't have to worry about legacy thinking processes or workflows or organizational design structures, and can get there sooner rather than later as Amazon has proved over the years?

Peppers: That's a very, very insightful comment that the startups tend to get there faster than... I think Esther Dyson said, "Why did it take God only seven days to create the world? Answer, because she had no install base." That's one possibility. I think that certainly has aided the startups. But I think there's another very, very important aspect of startup businesses. Startup businesses are much more likely to be owner-managed. And Jeff Bezos is the controlling shareholder of Amazon. And it's almost comical to hear investment analysts lamenting Amazon's reluctance to provide better dividends or better... Because he's investing in growth, he's the stockholder that matters the most. He's closest. I sometimes tell companies, you know, the reason that your salespeople and your business processes tend to abuse customers by selling them things they don't want or don't need or more than they want or whatever, it's not because you're profit-oriented, you just are operating on the wrong timeframe. Okay, you think profit all happens in this quarter, but it doesn't, it happens in the future. Customers have memories and how you treat the customer today will affect how they do business with you in the future. How much business they do, how willing they'll be to do business with you, that led that whole insight that the false timeframe that our current 19th-century accounting systems forced businesses into, that false timeframe of quarterly profits, quarterly results, quarterly-only matters. That false timeframe is the culprit. And an owner-managed business like a startup, whether it's a massive startup like Amazon or Google or a tiny startup that's still venture-funded, the management of those startups is much more in the hands of the big owners, the major owners. They're much more shareholder-oriented than other companies where you have basically bureaucracies that have exceeded into management positions and are evaluated based on metrics that tend to be short-term, easily gamed and often lead to outright fraud or misdeeds in order to pump the stock price or to hit the quarterly numbers as everybody from the Wells Fargo scandal to, you know, everything shows that businesses, they respond to incentives and incentives that are based on short-term issues, you know, this quarter only, they're going to generate perverted results. (19.23).

Shaw: It's interesting. I was reading the other day that, you know, a good many board members tend to have finance backgrounds. They're very finance, numbers-driven. And that accounts for their inability to connect with the issues that you're talking about, that you're raising even in the face of massive business disruption and almost as though they were speaking two different languages. And therefore there's this disconnect which leads to board members sticking with what they know and really, it's all about risk aversion. Is the failure here of marketers ..and this goes back to early days, really, is it the failure of marketers to make the business case for change here, to make the board and the senior management see that the numbers will eventually payoff? I mean, Jeff Bezos could do it because he had the long-term vision of say, "Well, if I build our customer base... A customer will re-order from me," as you were putting it earlier, "if they have trust in me." Is it that inability to communicate that message to the board and to senior management that's really the failure here or is it marketing that is the failure? But frankly, they have their heads down just trying to get campaigns out the door and aren't really change agents.

Peppers: Well, that's a good question, but I, frankly, I think there's enough responsibility to go around, cover everybody. I think, you know, I don't judge financial people any more harshly than I judge marketing people. I think everybody is short-term focused and, you know, what's interesting, Steve, is Martha I wrote a book in 2005 called ''Return on Customer.''

Shaw: I have it. Yes.

Peppers: Okay. "Creating," I think the subtitle, something like, "Creating Maximum Value From Your Scarcest Resource." And ''Return on Customer,'' for my money, I got to tell you something, "Return on Customer" is the most intellectually revolutionary book we've written since "The One to One Future," because our argument is that you should treat customers like a scarce productive resource. Money is not a scarce resource. Money is infinite. It's infinite. If you have a really good investment, you can always find money because it infinitely expands for the ROI. If I have a great return on investment, so I can borrow the money, I can raise money from stockholders, I can tap my Uncle Vinny, I can always find the money to pursue this opportunity. But there is no secondary market for customers. There's no bank you can go to and borrow some customers for a little while, create some value and then we pay them with interest. It doesn't happen that way. There's only a finite number of customers. You may have a million customers, but you can still count them one at a time, so every time you fail to sell to a customer or radically tick off a customer who becomes...that is a permanent loss, that's not replaceable. It's not replaceable because there's only a finite number of customers. So our argument in "Return on Customer'' is rather than looking at spending always in terms of return on investment, you should also, or maybe rather than return on investment, you should think about what's your return on customer. Let me give you an example of how that would apply, a very simple idea. If I buy a stock for $100 and it pays me a dividend of $5 during the year. And it goes up at the end of the year, it's worth $110, then my total ROI is 15%, right? It's directly analogous to the way we were talking about customers. Think of a customer who has a lifetime value, according to your model, your statistical model, lifetime value today of $100. They buy $5 of stuff from you during the year. By the end of the year, you've been able to increase their lifetime value to $110. Then your return on customer is 15%. Now, lifetime value is a topic that is very, very well-known in the direct marketing business. The direct marketing business precedes the internet by 30 years, really. In direct marketing and database marketing, everyone wanted to sell to high lifetime value customers. They wanted their customers to have high lifetime values. But when Martha and I did our book, ''The Return on Customer,'' we did an academic search for any studies or articles that talked about actively trying to change a customer's lifetime value as a way to create value. If I could change your value to me from $100 lifetime value to $110, that's an act of value creation every bit as important as the $10 in sales or $5 in sales that you've given. We couldn't find a single academic reference to change in lifetime value, but "Return on Customer" explicitly talks about, it explicitly incorporates the idea that increasing your existing customers' lifetime value is a very valid way to create real economic value for your enterprise, for your business. So I guess what I'm saying is marketers and financial people just haven't been talking the same language and so, "Return on Customer," we try to create that language that would allow marketers to communicate what they're trying to do with the chief financial officers who were trying to, you know, reconcile marketing costs and revenues with their financial statements. One of the problems, by the way, from an accounting standpoint, is that customers are not capitalized assets. In most business-, there are a few businesses, mailing list businesses, something like that where they actually capitalize the value of customers. Mailing lists and so forth used to do that. But for the most part, for the most part, the value, the lifetime values of the customers you serve and lifetime value is basically just the net present value of future cash contributions you get from a customer. For the most part, businesses don't put them on the balance sheet. (26.10).

Shaw: No, they're subsumed under the goodwill line, and also includes brand equity, right? So they bury customer equity under brand equity. Yeah, absolutely.

Peppers: And there's a reason now why 70% of the stock market capitalization, the market capitalization value of Standard and Poor 500 companies is in intangible assets. And 30 years ago, like 5% or less was intangible assets. The reason is there's... Google may be worth hundreds of billions of dollars, but guess what? There aren't that many computers and ping pong tables that Google, there's not that physical... They're worth something based, which is much more real, which is the future intentions of their customers. That's what the stock market is valuing. The stock market is real, whereas the accounting systems are not. They're artificial, they're representational. And the fact that we don't have the value of our customers on the balance sheet is one of the most difficult obstacles to any marketer and financial person trying to reconcile, "How do I justify the cost of this campaign to earn my customers' trust?" What's the value of them? I'm not getting anything back from that today, not this quarter. You know, the value of that is gonna happen in future quarters, maybe future years or decades.

Shaw: And so the economics of this are clear to believers and evangelists like yourself and myself, certainly. We face it even with our own client base where there are these top-down commercial, what they call commercial imperatives, corporate imperatives, corporate goals that are completely disconnected from the reality of the customers that you're describing. And so it puts pressure, it seems to me, on the CMO to achieve unrealistic growth figures in the face of what organically is not possible because there's not really a bottom-up calculation of what that incremental value can be. Therefore, you're working within superimposed goals that force management to distort their policies. And I wanna bring up an example and ask you about this because what you're certainly seeing out there, and Forrester reports against this, is a flattening of CX quality indices. In the face of all this disruption, all of this ethos around putting the customer first, in the face of all that, no one, everyone is kind of mystified to say, "Well, the indices aren't moving." That means companies actually aren't doing a better job of customer experience, notwithstanding all the language and hype about it. Given what you just described, is that due to management still doesn't get it or is it due to an enthusiasm gap or is it due to the fact that to transform a legacy business and address all of the issues within that business from how you're organized to the cost of digital transformation, is that cost figure too forbidding for a company to swallow because they do have these sales objectives and marketing objectives and profit objectives, their EBITDA, that they have to meet?

Peppers: Yes, and then my answer is yes, all of the above. However, I'd be careful in your premise that the quality of the customer experience is declining or static because the surveys are static. Because, don't forget, everything is relative.If you had a time traveler coming from the year 1980 to the year today, they would be ecstatic about the level of customer service, the friendliness of companies, the constant attention to their individual needs of even the most backward companies today. So my feeling is that the customer experience continues to increase in value and quality. However, it is sort of like what the...evolutionary economists call the "Red Queen Effect." The "Red Queen Effect" is named after Lewis Carroll's "Through the Looking-Glass" book where Alice encounters the Red Queen, a chess piece who has to run faster and faster just to stay in the same place. Well, that's what businesses have to do. You know, your competitor is no longer the...if you're a tool and die maker, your competitor is not the next door tool and die maker. Your competitor is Amazon because every time one of your customers is well served by Amazon or by Apple or by Netflix, every time one of those things happens, their expectations of you go up. And so their satisfaction is likely to go down unless you're continuing to increase the quality in your own customer experience.

Shaw: There's a gap, expectation gap, if you will.

Peppers: Yes. Yeah. And another favorite quote of mine is from Warren Buffett. He said, ''The secret to great shareholder expectations is the same as the secret to a good marriage. Low expectations." And I think you can say the same thing about the customer experience. To a certain extent, the secret to a great customer experience is low expectations. The problem is that traditional marketing has always been based on building people's expectations up in order to get them to buy. And so marketing never admits fault, never admits vulnerability, never says anything except that the product is perfect in every way. And they almost condemn their customers to disappointment with the product. So one of the things I think that is going on over time is that marketers around the world are realizing that online communications and interactivity with customers and social media interactions and the word of mouth reputation that's spread among customers about a business has more and more value. And they're more concerned with that value and properly so. (32.43).

Shaw: And that's a good point. Yeah, I mean, just to pick up on what you were just saying, just to say that, you know, Bain's NPS score sort of has risen to the top of the corporate scorecard these days. You certainly hear a lot of organizations making that a beacon metric they need to improve. That's been, I think, a bit of a factor in, or a catalyst, I should say, in getting organizations to be thinking more seriously about customer experience.

Peppers: Right. No, I agree. I agree 100%. And, in fact, I just had lunch with Richard Owen the other day. Richard now runs a company called OWEN CX. And you may know Richard was the CEO of Satmetrix, which was the big NPS scorekeeper bought by Nice. So Nice bought his company. He, you know, he went into his own business again and Richard's a good guy. But Richard also knows that it's an expectations business and that people's expectations, they're subjective. They're human, they're personal. They're subject to all the behavioral economic faults and foibles that Kahneman and Tversky pointed out, that Dan Ariely pointed out, you know. So voice of customer feedback is, in my view, voice of customer surveys are excellent early warning systems for points of friction in the customer experience because customers will make no secret of the fact that they're upset about this or upset about that, whatever, you want to know that right away. They're not as useful in terms of gauging your overall quality as a business relative to the past or relative to your competitors. Unless you're also measuring the NPS of your competitors, which you can do. You can call customers at random of your competitors and ask them the NPS question and that'll provide you an important gauge of consumer sentiment. Because consumer sentiment goes up and down, up and down, up and down like the waves of an ocean. As the economy gets better and better, people's attitudes improve, as it goes down, they decline, and it has nothing to do with your individual performance as a business. And you will not pick that up if you don't put those voice of customer surveys into context.

Shaw: And that leads me to another area of discussion, which I think is quite interesting because there is alignment starting to occur that perhaps didn't occur before. And I think it's simply because, you know, marketing now understands that the path to success is no longer through the advertising door. We're certainly seeing that trend accelerate. But more importantly, I think, is the idea is that brands are beginning to realize they have to actually stand for something. Well, I think one of the inflection points this year is, you know, in my own personal review of key trends has been P&G's recognition that, you know, we're facing "massive disruption," in Pritchard's words, and brands need to reinvent. And the reinvention of brands leads us down this path of an ethos statement. And so certainly seeing the Kaepernick campaign by Nike was a lesson for marketers everywhere to say, "You know what, we know the values of our core audience here. We don't care if we're gonna piss off a third of the population or not. We know the people who care about this brand and the people we care about actually care about these values and therefore, we're gonna stand for something." That seems, to me, a very encouraging sign that will push organizations down the path of doing the right thing. What's your perspective on this whole concept of brand purpose and standing for something and using that as a way to, as I say, to, as a beacon for the organization? (36.50)

Peppers: That's a great question. That's a great question. And I think the whole idea of social sentiment and a sense of purpose, a sense of worth and value that customers have, sort of a joining with a company's mission as in the Kaepernick example, you know, I think that's going to be increasingly important. There are a couple of books on this recently that you might've seen, one book called ''New Power,'' another book called ''Social Singularity.'' There are a lot of people now writing about the idea that the new marketing of companies has to infuse, has to be infused by the sense of purpose or the larger purpose of the business. And so they want customers to join them as collaborators to be part of the movement. And it explains everything from Trump's election and Brexit to the Kaepernick example to the companies that are climbing onto the Me Too Movement and so forth. I think the politics and the moral sensitivities of customers are going to figure increasingly, in increasing importance with the marketing efforts of businesses. I think that's very perceptive for you to suggest that.

Shaw: Well, I just think that what, to go back to our conversation earlier about board members in the pursuit of growth, willing to compromise values and integrity. And I think there's needs to be a rediscovery of integrity. And what's encouraging about this shift that we're seeing is that marketing is taking the lead on this conversation and standing up and saying, "In order to win the hearts and minds of customers, you know, we need to win their trust and we can't win their trust by behaving badly." That's the encouraging part.

Peppers: I agree. Yeah. I think that is encouraging and that's good. I am a little cynical. I do think that marketers are looking at this, as many marketers are looking at this as a kind of a campaign opportunity or a, you know. But I think to the extent that a company's managers and senior executives embrace this as a surely land-breaking, you know...

Shaw: Ground-breaking, yeah.

Peppers: ...a truly big, a breakthrough change really in the way companies think about why their companies... You know, I'm fundamentally an economic conservative. I always have believed in market forces and that over time, markets will do better than people. I've always been anti-bureaucracy, anti-authority, in favor of bottom-up organizational principles. And sometimes people associate those principles with the ironclad law that shareholder value is supreme, that nothing matters except shareholder value. But I don't see any fundamental contradiction because if I have a business where my customers are advocates for my business because of the cause or the purpose or even the personality of the business, then my shareholders are very, very well-served. Look at Apple, you know?

Shaw: Exactly.

Peppers: Contrast... I like to make the comparison between Apple and AOL. Remember America Online, AOL?

Shaw: Absolutely, yes.

Peppers: They're both digital companies. They both came into existence in the same couple of decades. But AOL was legendary for deceiving customers, for almost cheating them, for making it really ridiculously difficult to quit the service even when they wanted to. And Apple was legendary for being maniacally focused on the user experience. You know, it's what Steve Jobs always wanted was, "How do users really view this and what do they want?" And then there was, in fact, a timeframe in 2006 or 2007 when Apple was bringing out the PowerPC Mac, it was a Macintosh with an Intel chip and their sales had fallen a little bit behind on this, the production was slower than they thought of this particular PowerPC Mac. So a couple of stock analysts downgraded the firm, Apple, financially, but one analyst upgraded the firm because they'd actually made calls to Apple's contact center and asked to buy a PowerPC Mac and had been counseled to wait until the actual Intel chip was installed because they were using another company's chip right now and you'd be happier if you wait another quarter, you'll get...And so the analyst said, "What kind of company would counsel customers not to buy when he's perfectly willing to buy? I was perfectly willing to buy. They counseled me not to buy until later because I really wanted..." And, "The kind of company that's gonna be around forever." So when, you know, AOL, they were never able to go into a different business. They never were able to make the transition from dial-up to Wi-Fi. They couldn't do it. Whereas Apple was a computer company, then they created a music company, they basically single-handedly created the smartphone category and the tablet category. And at each point, their customers were cheering it on. They wanted more, they wanted more. When AOL went out of business by being bought by Verizon, there weren't any tears anywhere. And the only people who cried might've been some early senior executives whose stock options weren't worth as much as they thought they would be.

Shaw: Yeah. Isn't that the test of a brand that if no one misses it, it didn't deserve to exist in the first place?

Peppers: No one misses it. If Apple went out of business, you'd have rioting in every major Western city tomorrow. Rioting. Right?

Shaw: Well, it would have been very disruptive for a lot of people. That's for sure. We got a whole Apple cultist group here at this company and I see it every day. But let me ask you about that because Apple's a good example where they're facing significant product parity in the market now. I had a fellow last night quite proudly showing me his Chinese mobile phone that's equal, he claims, in functionality to any of Apple's high-end products. And he also pointed out to me that Apple's services revenue is, you know, rapidly accelerating and therefore, Apple's brilliance all along has been creating this integrated ecosystem which really locks people in because of the integrated experience that they offer. Is that the future of companies is creating these integrated ecosystems, these voluntary relationships that people lock onto a specific brand and that build that trust over time, is that the future of brand marketing?

Peppers: I don't think so. I think it's one tactic. I think it's a tactic of brand marketing. And don't get me wrong, I don't think there's anything really wrong with trying to create a relationship with a customer that develops his own context. So the customer feels it's easier to keep going with you than to reinvent the context somewhere else. That's what a closed system really does is... But it's true also with your, you know, your retail bank. You pay your bills online, the bill pay function, you know, and the main reason people don't change retail banks today like they used to is because, say, when I go change my bank, I've got to re-input all those vendor IDs and so forth to pay my bills. And so I think that kind of lock-in of a relationship which Martha and I called a "learning relationship," a relationship with the customer that gets smarter and smarter. So that the more of the customer teaches you about how to serve them, the more loyal they'll be because it's more trouble than ever to go someplace else. I think that's a marketing tactic that's valid and useful. And when you couple it with a genuinely trusting customer-oriented relationship, it's, you know, it's not bad. I don't think, however, it is necessarily going to be immune to competition. I think that what you're gonna see is companies of the future are going to want the emotional attachments they have with their customers that characterize purpose-driven organizations. They have emotional connections with their customers. And those emotional connections are not easily duplicated by competitors. You know, the people who follow Apple are gonna follow Apple even if Samsung can completely duplicate the iPhone service, because if you're an Apple customer, you're a rebel, you're against the grain, you're creative. And they're gonna come up with something even more creative and revolutionary. That's one aspect of the customer personality. The other aspect of the company personality is Apple is one of the FANG companies that's at least making very strong policy statements with respect to protecting customer privacy. Apple is really on the front edge, the leading edge of the privacy protection idea. (47.00).

Shaw: Well, I guess because it sees the soft underbelly of its competitors and is attacking them where they're weakest.

Peppers: So I guess my point is while I do think that walled gardens, as they say, is a good tactic, I don't think it's a long-term strategy and I don't think Apple views it as a long-term strategy

Shaw: And yet you still see, I mean, look at, go back to the packaged goods example of all these DTC brands popping up here, there and everywhere and giving P&G a run for its money in certain categories where this subscription model seems to be quite popular with consumers or people generally, is, again, is that, you know, the other term I've heard for it is "the platform economy," "the subscription economy," call it what you will, but this idea, isn't that really, though, a manifestation of the very things you predicted in one-to-one marketing, that is this highly individualized marketing based on a consensual relationship with a customer where you're delivering continual value?

Peppers: No, I agree 100%, you know, it's basically “everything as a service” economy is what you got.

Shaw: Right. Marketing as a service. Yeah.

Peppers: Yeah. Well, Martha and I said specifically, we...our advice at the end of chapter 10 was to, "Buy Software, Not Hardware." Okay.

Shaw: If you had to redesign from scratch a marketing organization to fit the future, that is, make it future-proof. And "marketing organization" in the sense of its job is to help that company obviously grow by attracting customers, developing those relationships, etc. If that's the mandate going forward of marketing, what does that, and I'm sure you get to ask this a lot, what does that organizational design look like going forward in this age of Agile marketing and multidisciplinary groups, etc.? What does that organization even look like going forward?

Peppers: That's a great question. And it's gonna deserve a longer answer than I'm gonna give you, but let me suggest there are a couple of issues involved. One is I do believe that any forward-thinking company when it organizes itself needs to organize itself around its customers. So, for instance, if you're a startup, if you're a startup business, a startup knows that... First of all, startups are in the business of trying to find the business model that's gonna be the most profitable. They wanna find that, you know, if you're an existing business, you're concerned with streamlining and smoothing and perfecting your current business model. But if you're a startup, you're looking for the business model. And the way you look for the business model was the product/market fit. You wanna know who are gonna be your most enthusiastic, must-have-it customers because you don't have to sell it to everybody, but you have to find a group of customers so enthusiastic that they can't live without your product. That's what you want. And that's how you start to build your business. So let me tell you a quick, quick story. I helped Steve Blank in his course, the Entrepreneurial Ranch course at Stanford. And there are 10 teams that compete with different startup ideas for, they compete for spots. And one team last year had a really interesting idea for a startup. They had a smartphone app that you could look into the smartphone and it would tell you how inebriated you are by looking at your eye movements, and it's an existing technology. And so they want to sell this. They want to create this as an app and they're gonna sell it. Now, who's gonna buy it? Well, they talked to parents first, parents with kids, but parents all said, ''No, no, we trust our kids.'' And then they talk to students. And the students said, ''No, no, no, I know when I'm drunk. I know when I'm drunk.'' They talked to police officers. Police officers said, "Well, you know, we got the breathalyzer test." And so, but then they stumbled across one particular group of customers where two conversations in a row were, ''Oh, my God, I gotta have this. How much is it? Is it a thousand dollars, $2,000? How much is it?'' Parole officers. Because if you're a parole officer, then you have to do periodic checks of your client's sobriety. How much easier it would be to call Jack and say, "Hey, Jack, look into your phone right now. I want to know what your sobriety is," right? As opposed to having to drive out and find Jack and do this. Now the lesson here is they don't need to sell to everybody. They could create a whole business around parole officers and that's the lesson for other startups, too. You wanna find your single most enthusiastic, must-have-it customers and the first rule of marketing in my book would be who's gonna be in charge of making sure that these customers are happy with the product and buy the product and get their value out of it because that's our primary business. Then our secondary business is who's the second most enthusiastic customers and who's the third most valuable customers that we have, and I would literally organize my business in a tiered customer manner like that, starting with the most valuable, must-have customers and going down through it. (52.28)

Shaw: It almost suggests a segment-based model for organizational design that you seem to be alluding to.

Peppers: Yes, yes. But be careful using the word "segment." "Segment" is a marketing term and as a customer, I can be in more than one segment, right? I could be in the young fathers segment and the upper-class segment, whatever. Martha and I called...when we talked about managing customers way back in 1993 to go back to the book, we've talked about putting customers into portfolios. A portfolio is a group of unduplicated customers. So a customer is only in one and only one portfolio. So, you know, the thing is at any company today, I can look at a company's product and there's some person at that company who's responsible for bringing that product to market and making that product profitable. But if I focus on a customer at random and say, "Who at the company is responsible with this particular customer," there usually isn't anybody. And a portfolio would mean there'd be people in charge of particular customers. Their jobs depend on improving the value of those customers and selling more to those customers. And that's portfolio management.

Shaw: One of our core principles here at this company is the concept of customer portfolio management. And largely because of, again, being inspired by your original book. Last question and I wanna go back to the book, and you talked about at the very start of this conversation, you had some very unbelievably forward-looking ideas. You did predict the rise of the gig economy quite specifically. I loved how you referenced this idea of belonging at some point because today's trend of a search for meaning and the desire for transcendence is exactly that search for belonging. You talked about tribes before Seth Godin made it popular in his own publishing, in his own works. But the one thing that stood out for me in rereading that last chapter in your book, and it's actually chilling, is this idea of technology has positive aspects and negative aspects. And one of the negative aspects was the potential to isolate people that live in their bubble, that are isolated from their adversaries. This is your election day in the US. I don't mean to introduce politics into the conversation, but isn't that one prediction you wish hadn't come true?

Peppers: Yeah, well, you're probably right. I think that we didn't call it an echo chamber, but that's what a bubble is. It's an echo chamber. We said, you know, when people can associate with anybody at all, they will gravitate to associate with people who have similar views. And the more they talk with their friends who share the same views, the more extreme those views will become. And I think you're seeing this today. Is there a remedy for that? I think the remedy is education. I think people need to think critically in ways that... I think the biggest weakness of democracies today is the education systems just are not preparing people for the reality of a technology-fused world where everyone's connected all the time. And I think that's gonna be a big issue in the future. I don't have a solution for it. i just think people have to be more reasonable.

Shaw: I think everybody's just trying to make up these rules as they go along and being as adaptive as we can. And that really speaks to the condition of marketing today, doesn't it? Needing to be adaptive to these changing circumstances and helping organizations move more quickly along the right path, not the wrong path. And that's what I think is so personally encouraging by the developments over the last number of years is this shift that we're seeing. And again, you know, inspired by a lot of thinking that you've contributed to the literature and to, obviously, through your speaking engagements. So again, Don, thank you very much for this time. It's been a fantastic hour. It went by too quickly. So I really appreciate your cooperation on this.

Peppers: Well, thank you very much, Steve. It's a delight talking to you and I appreciate your interest. Thank you.