

Customer first thinking.



1:1 Marketing

An Interview with Don Peppers, Marketing Oracle and CX Expert

Don Peppers

Twenty-five years ago Don Peppers and his partner Martha Rogers wrote one of the most influential marketing books of all time called "The One to One Future: Building Relationships One Customer at a Time" (1993). Many of their predictions came true. Today Don Peppers remains a marketing visionary and ardent proponent of "putting customers first".



This interview has been edited for clarity and conciseness.

In 1993 the interactive future seemed excitingly close. 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. They were even more inspired by a new book called "The One to One Future: Building Relationships One Customer at a Time". Written by Don Peppers and Martha Rogers, the book imagined what the future of business might look like due to rapid technological change, particularly the emergence of individually addressable

media. Intended as a "guidebook for competing in the 1:1 future", the book argued that to succeed marketing would need to "put customers first" 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 businesses are still struggling to catch up to the one-to-one future he and his partner envisioned a quarter century ago.

SS

Stephen Shaw (SS): Last year marked the 25th anniversary of your book. Did you and Martha find time to celebrate?

DP

Don Peppers (DP): No, we didn't. We thought about it. Some people urged us just to do it, but, you know, 25 years is like two and a half centuries, internet time.

SS

Looking back, you got a lot of predictions right. What did you feel you really got right and what predictions never quite turned out?

DP

Well, I think one prediction we got right was in Chapter Eight, “Take Products to Customers, Not Customers to Products,” which was about what we now call e-commerce. We felt that offering products unique to customers, whether they were mass-customized or just personally relevant, was the future. And one of the first things we suggested was that companies needed to begin thinking about their “share of customer” instead of market share. To increase market share, you usually have to reduce your price, which lowers the unit profit. However, with “share of customer”, the more a customer buys from you, the easier it is to sell to them, decreasing the cost of sale. We called this difference “economies of scope” as opposed to “economies of scale”. The bigger the scope, the more profitable a customer is likely to be. We also had a few science fiction predictions in our final chapter which we called “Society at Light Speed,” where we wrote amongst other things about what we now call the “gig economy”. One prediction we got really wrong 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 out there. We thought that might create a business opportunity for “privacy buffers” who would make money serving as a trusted intermediary. But I think people today really aren’t as concerned about their privacy as we thought they would be.

SS

Given the privacy intrusions we’ve recently seen, the data breaches, the introduction of stricter regulations, is that still true?

DP

Oh yeah, maybe our prediction will come true sooner or later. As the saying goes, “If you’re online and the product is free, you’re the product,” right? You see most online vendors trafficking in information about their audience. Their users aren’t really their customers – those are the advertisers paying them to reach their users. I’m optimistic about solving the privacy dilemma. I just don’t think it’s going to bring down society, frankly.

SS

Are companies still struggling to get out of the starting gate with one-to-one marketing versus the startups who don’t have to worry about legacy processes and systems?

DP

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. Jeff Bezos is the controlling shareholder of Amazon. It’s almost comical to hear investment analysts lamenting Amazon’s reluctance to provide better dividends ... because he’s investing in the future. I sometimes tell companies the reason you sell customers things they don’t want or don’t need is because you’re operating on too short a timeframe. Customers have long memories and how you treat them today will affect how much business they do with you in the future. Quarterly performance reporting is the real culprit.

SS

Is the failure to transform their businesses fast enough the fault of marketers who are not good at being change agents?

DP

Well, that’s a good question, but I think there’s enough fault to go around. Martha and I wrote a book in 2005 called “Return on Customer” where our argument was that you should treat customers like a scarce resource. Money is not a scarce resource. Money is infinite. You can always find money. But the market for customers is finite. There’s no bank you can go to and borrow some customers for a little while. So rather than looking at spending in terms of return on investment, you should think about your return on customer. Increasing your customers’ lifetime value is a very valid way to create real economic value for your enterprise, for your business. Marketers and financial people just haven’t been talking the same language. One of the problems from an accounting standpoint is that customers are not capitalized assets. For the most part, businesses just don’t put them on the balance sheet.

SS

No, they’re subsumed under the goodwill line. Customer equity is buried under brand equity.

DP

That's right. Today seventy per cent of the market capitalization value of S&P 500 companies is in intangible assets. Thirty years ago, that figure was 5%. The reason Google is worth billions is the future intentions of their customers. That's what the stock market is valuing. The fact that we don't have the value of customers on the balance sheet is one of the most difficult obstacles to any marketer trying to justify the cost of a campaign to earn customer trust. How do I quantify the value of trust? The value of trust lies in the future, not in this quarter or next.

SS

Forrester Research's customer experience tracking shows a plateauing of CX quality indices across most sectors. Companies simply aren't succeeding at delivering a better customer experience, notwithstanding all the hype about it. Is that due to an enthusiasm gap or is it because the cost of transformation is too forbidding for most companies to swallow?

DP

All of the above. However, I'd be careful in your premise that the quality of the customer experience is static - because the surveys are static. Don't forget - everything is relative. A customer in the year 1980 would be ecstatic about the level of customer service today. However, it is what economists call the "Red Queen Effect". In Lewis Carroll's "Through the Looking-Glass" 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. Your competitor today is Amazon or Apple or Netflix, because they have raised expectations.

SS

There's an expectation gap.

DP

Warren Buffett said, "The secret to great shareholder expectations is the same as the secret to a good marriage. Low expectations." I think you can say the same thing about the customer experience. 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 says anything except that the product is perfect in every way. Which of course just sets up customers for disappointment.

SS

Yet the Net Promoter Score has risen to the top of the corporate scorecard these days. It's now a beacon metric that's forcing organizations to focus on improving the customer experience.

DP

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 the Owen CX Group. Richard was the CEO of Satmetrix which co-created the NPS Score, later acquired by Nice. Richard will tell you that people's expectations are subjective. That's why voice of customer surveys may be excellent early warning systems for points of friction in the customer experience, but they're not as useful gauging consumer sentiment. Because consumer sentiment goes up and down, like ocean waves. As the economy gets better, people's attitudes improve, as it goes down, they decline, and it has nothing to do with your performance as a business. You have to put voice of customer surveys into context.

SS

Brands realize the path to success is no longer strictly through the advertising door - they actually have to stand for something. Nike's Kaepernick campaign is an example. What's your opinion on the concept of brand purpose?

DP

That's a great question. The whole idea of social sentiment and a sense of purpose is going to be increasingly important. It explains everything, from Trump's election and Brexit to the Kaepernick example to the companies that are piggybacking on the #MeToo Movement. The moral sensitivities of customers are going to figure increasingly in the marketing efforts of businesses. I think that's very perceptive for you to suggest that.

SS

Well, I just think there needs to be a rediscovery of integrity. What's encouraging about this shift is that marketing is taking the lead on this conversation.

DP

I think that is encouraging and that's good. You know, I'm fundamentally an economic conservative. I've always believed in market forces. Sometimes people associate those principles with the idea that nothing matters except shareholder value. But I don't see any

fundamental contradiction because if my customers care about my purpose as a business, my shareholders are very well served. I like to make the comparison between Apple and AOL. 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. AOL was never able to make the transition from dial-up to Wi-Fi. Whereas Apple created a music company, created the smartphone category and then the tablet category. And at each point, their customers were cheering it on. When AOL was bought by Verizon, nobody was sorry to see them go.

SS

Apple's brilliance has been creating an ecosystem which locks people in because of the integrated experience they offer. Is the future of companies creating these integrated ecosystems?

DP

That's what Martha and I called a "learning relationship," a relationship with the customer that gets smarter and smarter. However, I don't think it's immune to competition. Companies of the future are going to want the emotional attachments with customers that characterize purpose-driven organizations. And those emotional connections are not easily duplicated by competitors. The people who love Apple are going to follow Apple even if Samsung can completely replicate the iPhone service, because if you're an Apple customer, you're a rebel, you're creative.

SS

Now you see all these DTC brands popping up here, there and everywhere, giving P&G a run for its money in certain categories. Isn't this so-called "subscription economy" a manifestation of the very things you predicted in one-to-one marketing, that is, highly individualized marketing based on a consensual relationship with a customer where you're delivering continual value?

DP

I agree 100%, it's "everything as a service" economy.

SS

If you had to redesign from scratch a marketing organization to fit the future, what does that look like?

DP

I believe that a company needs to organize itself around its customers. You want to know who your most enthusiastic customers are because you don't have to sell everybody, just those who can't live without your product. Let me tell you a quick story. I helped Steve Blank in his Entrepreneurial course at Stanford where there are 10 teams that compete with different startup ideas. One team last year had a really interesting idea for a smartphone app that would tell you how inebriated you are by looking at your eye movements. Now, who's gonna buy it? Well, they talked to parents first, but they said, "No, we trust our kids." They talked to students, and they said, "No, I know when I'm drunk." They talked to police officers, and they said, "Well, you know, we have the breathalyzer test." But then they stumbled across one group of customers who said, "Oh, my God, I gotta have this!" Parole officers. Because if you're a parole officer, you have to do periodic checks of your client's sobriety. How much easier it would be to call and say, "Hey, look into your phone right now. I want to know what your sobriety is," right? Now the lesson here is they don't need to sell to everybody. They could create a whole business around parole officers. You want to find your most enthusiastic, must-have-it customers and then the second most enthusiastic customers and then the third most enthusiastic, and so on.

SS

A segment-based model for organizational design.

DP

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? 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. Today, there's always some person at a company responsible for bringing a product to market and making that product profitable. A portfolio approach would mean there'd be people in charge of particular customers. Their job would be to improve the value of those customers. And that's portfolio management.

Interview

SS

One thing that stood out for me in reading that last chapter in your book, and it's actually chilling, is that one of the negative aspects of technology is the potential to isolate people from their adversaries. I don't mean to introduce politics into the conversation, but isn't that one prediction you wish hadn't come true?

DP

Yeah, well, you're probably right. People will gravitate to 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 the biggest weakness of democracies today is the education systems are just are not preparing people for a world where everyone's connected all the time. And I think that's going to be a big issue in the future.



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