ATKEARNEY

Customer Energy

The empowered consumer is revolutionizing customer relationships

The empowered consumer is no longer a vague concept, but a reality that is changing the face of commerce. As companies across the world, and across many industries, vie for the eyes, ears and mouse clicks of these engaged and empowered consumers, there is no turning back. The smartest companies are figuring out how to tap into this energy to increase revenues and spur growth.

As tempting as it is to reflect longingly on the good old days when companies had the upper hand in managing customer relationships or to discuss how to return to those times, it is not worth the trouble. Those days are gone forever.

Today's customers are too well-informed and not the least bit bashful when it comes to flexing their purchasing muscle. They have grown too savvy in the ways of modern marketing to return to the time when they were subordinates in the relationship between company and customer. Thanks to Web 2.0 technology, customers are irreversibly empowered and energized, enthusiastically sharing their product and service experiences and suggestions for improvement with the masses.[1] With millions of blogs, wikis, chat rooms and discussion forums on the World Wide Web, marketing in many ways has become a word-of-mouth experience, an ongoing and virtual over-the-backyard-fence conversation.

While customers' initial moves into the digital world were perceived by some companies as hostile—symbolized by the "rip, mix and burn" world of file sharing sites such as Napster—these liberated customers were actually pioneers in consumer empowerment. Yesterday's rebels have become today's devoted customers or, to the chagrin of some companies, disgruntled customers. Consider the two-minute YouTube video posted by a frustrated Microsoft user, demonstrating how to install Vista—not into his computer (that did not work) but into his paper shredder.[2] More than 3 million people have viewed it.

This shift in power is neither new nor sudden—it has been building throughout this decade. Networking giant Cisco Systems recognized it as far back as 2000. David Stauffer wrote about the trend in *New Economy Times*: "Customers are more than end-users for Cisco. They are integral to shaping the company's strategy and operations. That model of customer involvement will be increasingly prevalent in the 21st century as corporate success hinges more than ever on perceiving and acting on changing customer needs." In retrospect, this was a rather prescient observation.

We call this "customer energy"—and define it as individual commercial activities that play a role in the actions of other people, organizations, companies or industries. This can involve customers at virtually every step of the value chain starting from product innovation to manufacturing and distribution of the product. Figure 1 on page 2 reveals that most industries regard customer energy as essential to their business development. Companies view it as either a threat or a business

[1] *Web 2.0 is a term describing the use of Internet technology to increase information sharing and collaboration among users.*
[2] *http://www.youtube.com/watch?v=FVbf9tOGwno*

opportunity, but continuing to handle customer relationships under the old rules is no longer prudent *(see sidebar: Customer Energy: Threat or Opportunity? on page 4).* Indeed, we believe companies must fully embrace and collaborate with (digitally) empowered customers.

It is within this context that A.T. Kearney and the international market research institute Ipsos joined forces to study the phenomenon of customer energy. We interviewed 3,000 executives and customers in Germany, Italy and France to examine how companies in various industries perceive and react to these e-literate consumers, and how these customers are reacting to their newfound power. This paper highlights our findings.

The e-Literate Customer

To appreciate the impact of e-literacy on customer relationships requires first understanding that customer energy takes several different forms. Being able to distinguish among them is crucial for cashing in on the revenue potential they bring to the table.

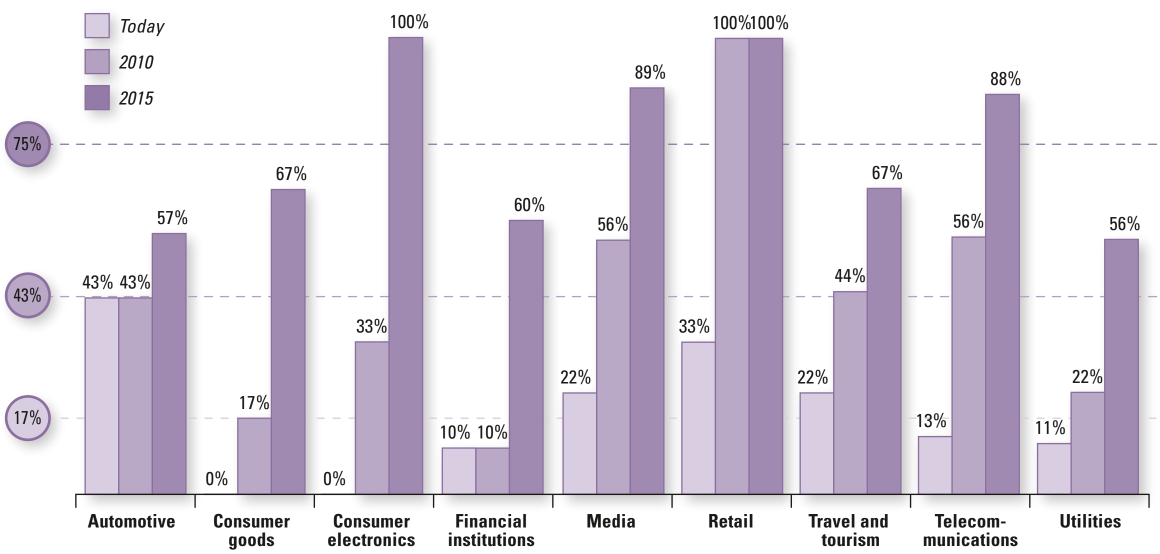
Not everyone who goes online wants to become a citizen reporter, a musician, a product designer or a software engineer. In fact, only a small fraction of users harbor the ambition to express themselves in such distinct ways. Our findings suggest that the vast majority of Internet users are actually far more laidback, prone to using less personal content—such as reading user reviews—when conducting their business online.

This underlying division among types of customers becomes clearer upon closer examination of the three main roles they have assumed on the Internet in recent years.

Creators (high-energy customers). This is the smallest group, comprising no more than 5 percent of online users, but it is also the most

Figure 1

Customer energy is critical to business activities[1]



[1] *Percentage of companies assuming strong criticality (scoring > 4)*
Question 3.13 to companies: How critical is customer energy to your company's business activities? Scale: 0 (low) – 6 (high)

Source: A.T. Kearney Customer Energy Survey active, including the citizen-innovators who are tapping into the Internet's wide berth of potential. Creators emphatically seek to influence change, and typically are professionals who work full-time jobs in an Internet-related capacity. In their spare time they use their professional skills and knowledge to "play" on the Web.

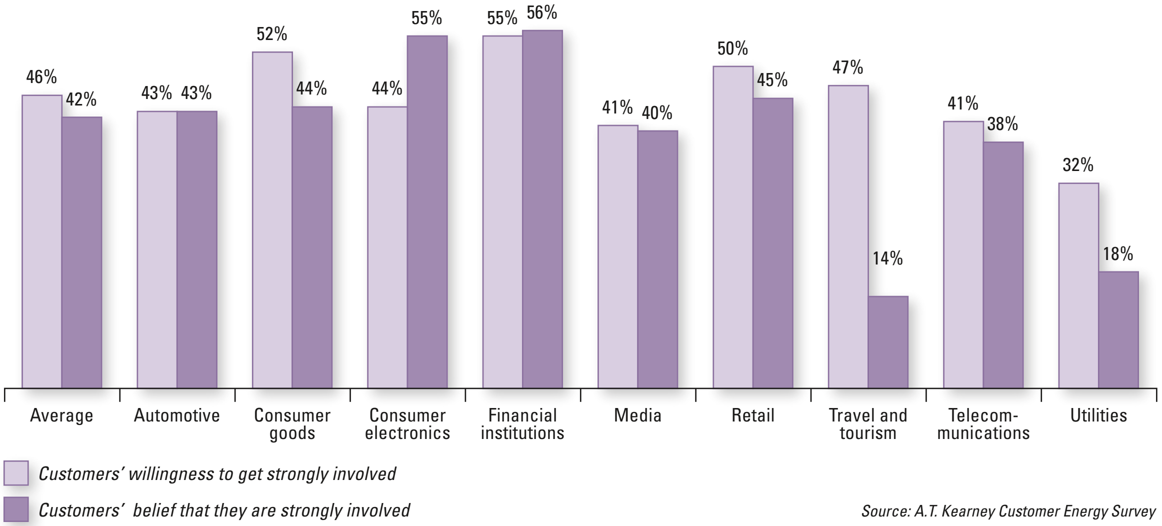
Contributors (medium-energy customers). This second, larger group accounts for up to 20 percent of users, a group of more casual participants who do not typically create new content but are willing to comment extensively on websites, blogs or discussion boards. Contributors want to get into a conversation with those who produce their favorite brands and prefer sharing their opinions by rating, ranking or recommending products to others and assessing creators' content.

Viewers (low-energy customers). The third and largest group is viewers, who make up three-quarters of Internet users. The least active and web-savvy, viewers have relatively weak emotional ties to brands, and their primary focus is to find the best deals. They are not inclined to chat or participate in online forums, and they do not apply much energy to their online consumer activities. However, technological advancements are changing viewers' habits; more are using Web 2.0 sites as sources of information and entertainment, and many are beginning to delve well beyond official homepages to learn more about products they plan to buy.

Companies are increasingly tapping into these different levels of customer energy, and most acknowledge that it will become more important in the future. Meanwhile, customers have also adapted and, in some cases, have even grown weary of getting more involved *(see figure 2)*.

Before doing anything, however, companies must know who these energized customers are and what makes them want to interact with "their brands."

Figure 2
Customer involvement[1]



Source: A.T. Kearney Customer Energy Survey

[1] Percentage of customers scoring > 4
Question 10 to consumers: How willing are you to get involved with <brand> and to take over activities for <brand>? Scale: 0 (low) – 6 (high)
Question 12 to consumers: How strongly involved in <brand> do you currently feel? Scale: 0 (low) – 6 (high)

Customers are Terra Incognita

Other than those with contractual relationships with customers, many companies struggle to know their high-energy customers, who tend not to sign up for the sweepstakes or the loyalty cards. This creates a knowledge gap.

On average, more than half of executives surveyed say their companies cannot identify their highest-energy customers, the ones who have so closely aligned themselves with these businesses. In financial services, 80 percent of these energetic customers are unknown, and in telecommunications and consumer electronics, the unknown quotient runs 70 percent and 67 percent, respectively. Even the media industry, which embraces such interactions, is having a hard time getting into a peer-level dialogue with its customers. The important issue, of course, is that when consumers are offered the chance to participate actively, they should know their involvement means something. Otherwise companies risk customers concentrating their energy elsewhere.

The findings also reveal that the assumptions companies make about their energized online audience tend to be incorrect. For instance, many companies underestimate the proportion of contributors who are instrumental in shaping the new online world of customer energy.

In retail, we found that companies perceive their customers far differently than their customers see themselves. For example, retailers estimate that creators account for 13 percent of customers, contributors make up 14 percent and viewers account for the remaining 73 percent. In stark contrast, 50 percent of retail customers characterize themselves as contributors, 9 percent describe themselves as creators and only 41 percent say they are viewers. Similar patterns are observed in other industries, particularly media and banking. Overall, 47 percent of all customers identify

Customer Energy: Threat or Opportunity?

Most companies still view customer energy as a threat: one that should be feared or one that can, at least for now, be overlooked. For example, many companies see enormous risks in customer energy based on the experiences of the past decade when more shopping decisions followed the pattern of "ROPO"—research online, purchase offline. Retail, telecommunications, automotive and financial institutions expect similarly negative effects from this shift in customer empowerment.

Utilities, on the other hand, which are still heavily regulated, are not yet convinced of a threat from customer energy. And a few industries have turned the corner and are trying to tap into the revenue-building potential of customer energy—making money or reducing costs by partnering with these customers.

The cost-saving potential is greatest for those that involve their customers in R&D. For example, the media industry plans to enlist consumers to become capable editors, citizen-reporters, songwriters and movie makers, among other things. They hope to capitalize on user-generated content to attract new customers and up-sell to existing ones. Media companies estimate a cost-cutting potential of up to 9 percent.

Retailers are considering the revenue implications of customer energy. They estimate revenues to be more or less evenly distributed between sales (up to 10 percent) through user recommendations, and customer care (up to 8 percent) through self-help platforms. A by-product of this is improving customer service by getting knowledgeable, high-energy customers to talk to each other. Telecommunications, consumer goods and utilities are already capturing the rewards of self-help platforms.

themselves as creators or contributors, which is almost 20 percent higher than companies' perceptions *(see figure 3)*.

So, while more customers want to get more involved there appears to be a sizable amount of their energy untapped and unacknowledged by companies. The benefits of fostering closer ties to customers in many cases may not be easy to measure. However, neglecting these people is not only a lost opportunity to create a better value proposition and therefore a competitive advantage, but it also risks customers turning against the company. Those in our survey assume that by 2015, 16 percent of their revenues are at risk due to customer energy.

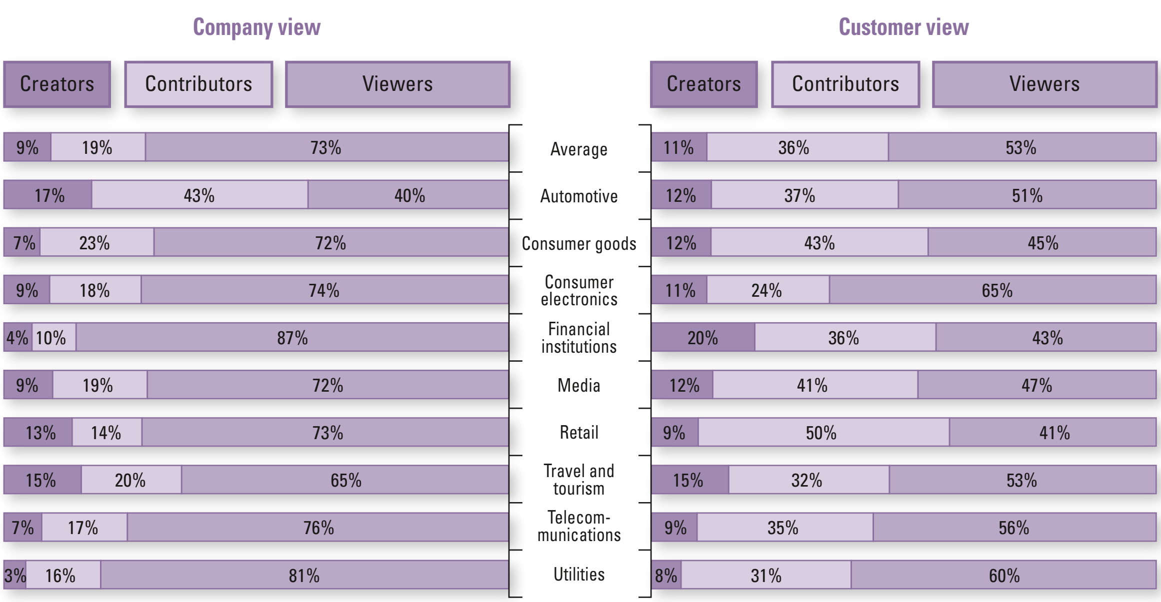
Creators = Value Creators

To make better use of customer energy, companies must first understand the "creators"—this 5 percent of customers who actively interact with their brands. Generally speaking, creators' user profiles match most Web users who, for their part, now more closely reflect the traditional customer profiles of offline customers. Slightly younger and better educated than the general public, creators tend to have more time and energy for interacting with their brands than the average consumer. Additionally, both creators and contributors are typically a product's early adopters who rank above the average customer in terms of satisfaction.

Survey respondents also expressed interests that might surprise corporate marketing officers *(see figure 4 on page 6)*. While most companies understand the advantages of customer energy coming from things such as viral marketing, user-driven message boards and self-help, creators and contributors are more ambitious, seeing their

Figure 3

Companies and customers differ in their understanding of consumer roles



Question 2.6 to companies: How high do you estimate the share of your customers in the following segments?
Question 16 to consumers: In which of the following segments would you personally classify yourself with regard to <brand>?

Sources: A.T. Kearney Customer Energy Survey potential roles as improving quality and contributing to innovation. For them, it is not only about spreading the word on a product, but also adding value to that product. For example, Apple used customer energy to create the open-source programs for its iPhone and other devices.

At first glance, these after-hours activities seem more laidback in nature and suggest that creators do it primarily for fun. But our findings suggest that for at least a few that is not the case: 30 percent of customers say they would be willing to spend at least three hours a week "working" for their brand without incentives *(see figure 5).*

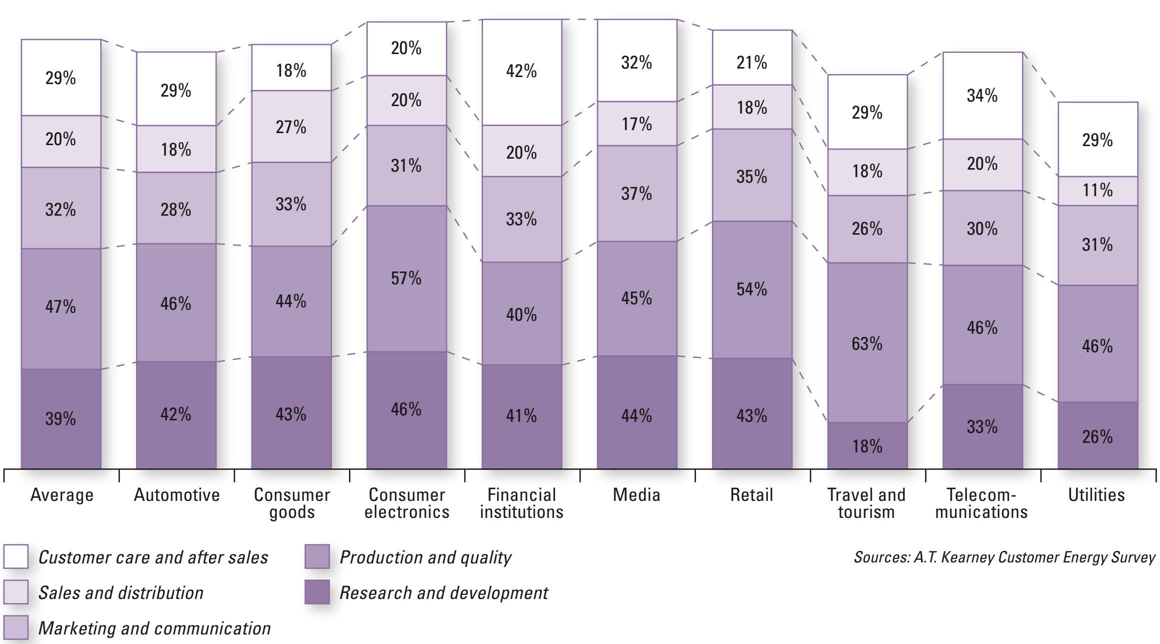
Capitalizing on Customer Energy

A few innovative companies have successfully used customer energy to generate revenue. Consider two examples: Goldcorp and Lego.

Goldcorp. Goldcorp is one of the world's largest and fastest growing gold-mining companies. Based in Vancouver, Canada, it employs more than 9,000 people worldwide, and has 17 operations and development projects throughout the Americas. Just a decade ago the company was struggling and needed a boost. So it turned to the Internet to help identify new sources of gold. The company published geological data for a 200-square-kilometer area of land it owned in Canada—an extremely rare disclosure in an industry averse to trading any of its secrets—and offered more than $500,000 in prize money to anyone who could identify viable locations for mining gold.

Close to 1,000 contestants from around the world, including geologists, students, mathematicians and military officers, ultimately identified 110 locations. About half of these locations were

Figure 4
Creators and contributors prefer to be involved in quality improvement and innovation



Sources: A.T. Kearney Customer Energy Survey

Question 11 to consumers: Along which value-added stages would you like to contribute to <brand>? (Multiple responses possible) new to Goldcorp, and most yielded substantial quantities of gold, more than 227 tons in all. Goldcorp's use of customer energy resulted in a significant acceleration of exploration for far less investment—enough to make the prize money worth hundreds of millions of dollars in return.

Goldcorp's use of the Internet served it well in getting customers involved, and it took advantage of customer energy at a minimal cost.

Lego. Since its introduction in Europe in the 1950s, kids all over the globe have grown up with Lego's colorful interlocking plastic bricks. But with increasing use of consumer electronics, Lego sales slowed down after 2000, causing the company to rethink its strategy.

Among its new initiatives, Lego decided to use the Internet as a means of involving and empowering customers. The company released its factory software to let customers create virtual Lego models and share their creations with other customers in an online gallery. The software is also available for sale in online kits that contain all the parts necessary for participating in an online "beauty contest." In addition, the company introduced an online social network called My Lego, where Lego addicts can connect, discuss concepts and even create avatars and their own webpages.

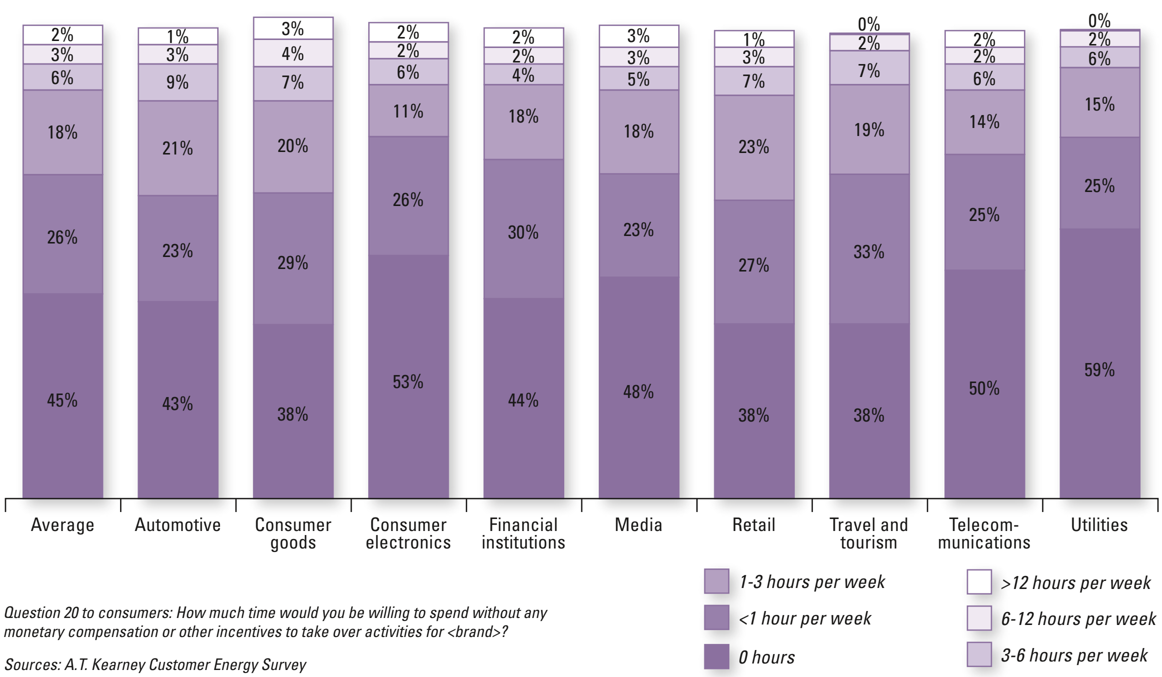
Lego is among a growing number of companies that are finding ingenious ways to use the energy of their customers for business purposes without endangering the traditional role of customers—to purchase products.

Investing in Web 2.0 Technology

Web 2.0 has enabled many of the web-based communities and hosted services discussed in this

Figure 5

Customers say they are willing to contribute to their brand without incentives



Question 20 to consumers: How much time would you be willing to spend without any monetary compensation or other incentives to take over activities for <brand>?

Sources: A.T. Kearney Customer Energy Survey paper, such as the social-networking sites, wikis and blogs that deliver richer online experiences to more people. The Internet is becoming far more than a channel of information—it is an area of creativity and collaboration.

Once aware of the massive potential behind Web 2.0, the most obvious question for companies is how to employ it. We recommend the following ways:

Define the strategy. Web investments without any return are far too common these days and completely unnecessary. Although Web systems come at lower costs than the mainframes of the past, costs are still sunk if a strategy is not clearly defined and does not have the right tools. For this reason, companies need to be clear about what they want to accomplish with their Web 2.0 strategy, and how different user types are likely to use it. Doing so will further reduce costs, especially by involving high-energy consumers who use it for design and enhancement, or even for taking over responsibility of the content.

Segment customers. Web 2.0 can be used to gain a deeper understanding of educated and digitally empowered customers and their likes and dislikes. Doing so requires identifying the biggest players—creators and contributors—and distinguishing their underlying motivations from those of viewers. Only then can Web 2.0 applications be designed around what really matters. The key to a successful offering is to create incentives for creators and contributors to bring their energy to these sites and make them attractive to the masses.

Design channels for specific users. By designing channels to appeal to the various types of users and their energy levels, strategies are more likely to reach their targeted audiences. It makes a fundamental difference whether a Web 2.0 platform will motivate creators to unleash their energy or whether it will be appealing, entertaining or convenient enough to draw in viewers.

Provide the right technology. World-class customer service depends on providing semantic intelligence and a solid search function that allows for self-service. Blogs and forums can help people find solutions to typical problems while also bringing more social and fun elements into the process. Pioneers such as Dell use web-based forums to support offerings and improve customer service.

Harnessing the Energy

The Internet has a lot to offer both customers and companies, but it can still be improved. Rather than falling victim to customer energy, we suggest embracing it: harnessing this mass-generated energy for products and services and using it to engage in a fair partnership with your best customers. Both sides will benefit from the relationship—from improved sales and service to the faster acceptance of newly launched products.

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