



Book Customer Capitalism

Increasing Returns in New Market Spaces

Sandra Vandermerwe

Nicholas Brealey Publishing, 1999

Recommendation

The death of the New Economy has been greatly exaggerated. That's the message at the heart of Sandra Vandermerwe's new book. While the heady valuations of the late '90s are history, the fundamental changes that technology inspired during that time are here to stay. With that in mind, Vandermerwe presents analyses of tools that business leaders need to survive into the 21st century. The most insightful of these is a breakdown of customer feedback loops and how they can be harnessed to lock in business. The book can't avoid many of the shortcomings that pervade most New Economy literature, like the tendency to advise readers to remake their businesses in anticipation of future customer needs, without commenting on how exactly that can be achieved. Nevertheless, if you're a manager who suspects that the innovations of the past decade might still play a key role in the growth of business, *BooksInShort* recommends this book to you.

Take-Aways

- Underlying trends explain why new business dynamics are here to stay.
- Anticipate a customer need before it emerges; position your company to fulfill it.
- Change to meet shifting customer demands. Don't rely on your core product.
- Products like knowledge and intellectual property soon become commodities.
- Customer capitalism relies on "abundant intangibles," which are not subject to diminishing returns and exist in inexhaustible supply.
- Learn to use self-reinforcing customer feedback loops.
- Failing to understand your customers' needs can multiply any errors exponentially.
- Knowledge becomes more abundant the more it's used.
- In the new economy, you will succeed only if you link with others.
- Properly providing the customer with integrated services will earn you the loyalty of an "installed customer base," which will stay with you indefinitely.

Summary

Post-Apocalypse.com

Now that the dot-com bubble has burst, the idea that we're in a new phase of economic activity - the so-called knowledge economy - seems either passé or irrelevant. But the traditional economy always had its shortcomings. Despite all the advantages of size, only about 30% of the Fortune 500 companies from 30 years ago still exist.

“Intangibles - the ideas and knowledge that people have, the skills to use this knowledge and the information they hold - differ in one hugely significant way from the scarce and discrete resources of the old economic era. They grow as they are used. They therefore obey the law of increasing, not diminishing, returns.”

Although traditional capitalism made companies incrementally more efficient, it usually didn't stimulate the type of innovation that was necessary to keep them at the top of their game for the long haul.

A new market dynamic, "customer capitalism," has replaced traditional capitalism. Customer capitalism gives you an opportunity to sustain your competitive advantage, if your company knows how to lock in its installed customer base. This is the pivotal group of people who want your company to be their dominant or sole choice in its field for the foreseeable future. One major barrier to entering a market is the prospect of appealing to customers who already are loyal to someone or something else. To achieve this, your company must understand the 10 principles of customer capitalism:

Self-Transformation

You no longer can define yourself in terms of a fixed product or service. Now your goal should always be to transcend your product or service to provide an even more desirable level of customer value. Remember, your customer is your franchise - not your product or means of production. In the new economic world, you must seek to create new markets, rather than merely accumulate a growing share of an existing market.

Discovery of New Methods

Today, you should approach business with an underground, revolutionary mindset. The status quo is suspect, and company leaders constantly need to seek the big breakthrough or the killer application that will drive current modes into obsolescence.

“Increasingly, the abundant intangibles are the major productive resource for the new enterprise.”

Customer capitalism means that managers should refuse to emulate current methods, and instead should always strive for a way to make current methods irrelevant. Your core enterprise gradually must give way to entirely new enterprises, as your company positions itself to become the standard for new economic interaction.

Customer-centric Innovation

The needs of the customer must guide innovation. Customer capitalists see a market opportunity and move to take advantage of it on behalf of their customers. By asking how things interact, the leaders of the new economy anticipate changes before they happen, and position themselves to respond to what hasn't yet happened. In short, they are visionaries.

Maximizing Customer "Time Value"

Always act to maximize the time value of customers. This is how you attract new customers, keep your existing customers longer and earn more value from each of them. Commit yourself to the lifelong value of the customer. In turn, your customers will accept the personal lifelong value of your corporation. However, meeting one or the other of these reciprocal goals is not enough. It must work both ways. Today, you're competing for the customer's time. You continually must develop new products and services that will make

the customer's time more productive.

Market Space Dominance

Evaluating your competitive status by market share ignores opportunities in new market sectors. The greatest products are those that haven't been invented yet. Market share is blind to new product opportunities. Many companies held record market shares just a few quarters before being bested by competitors who thought completely outside the "market share box." Customer capitalism changes the focus to new dynamic market spaces.

“Conventional accounting fails in every way to quantify the worth associated with the company's ability to produce superior customer value, let alone to attribute this to its market value.”

You want to own market space, which means the desired outcomes that customers want, rather than a specific product or service. Does Compaq sell computers, or global networking capability? Does Nortel sell fiber optics systems, or communication network enhancements?

Integrated Benefit-Linking

Linking benefits is the key to creating value for the customer. When you integrate your service or product, you give your customers a navigable environment where their choices are clear. Because old capitalism pushed discrete products through specific market corridors, it was unable to integrate services. Inevitably this led to breakdowns and gaps at key points in the customer cycle - presenting the danger of losing the customer.

“Prevalence is not about more and more of the core items being made and moved. It's about creating and gaining mastery over a standard-setting new way of doing things, and getting it adopted by a market first.”

For example, look at the customer space called "total well-being and life extension" ("medicine" or "health," in the old economy). The new opportunities in the market space of total well-being and life extension all originate from the convergence of biotech, pharmaceuticals, healthcare, fitness, nutrition and cosmetics. The space in between the products generates the value, not the products themselves.

The Installed Customer Base

Customer capitalism targets individual customers, not mass-customer markets. Individual customers become your installed customer base. They view your firm as their preferred choice on a continuing basis. That is the type of customer that any company would love to have. You must nurture them in order to thrive. However, this base will grow only if your company continually evolves ways to add to customer value.

The Rise of the Enterprise Space

Individual products or services were the hallmark of the traditional corporate approach, but today's value stems from interconnections. These interconnections become enterprise spaces, where new products, services and industry sectors emerge.

“Today it is overwhelmingly the intangibles - ideas, knowledge and information - which are driving growth and prosperity, not the core items which, on their own, soon become commodities.”

Customer capitalism cannot survive on the outdated notion that every transaction must have one winner and one loser. Instead, use a win-win value proposition to succeed in interconnected enterprises. Look for fellow travelers, partners who are willing to move forward with you into an integrated customer capitalism venture where everyone wins.

Abundant and Intangible Resources

The new resources that drive the economy are as abundant as they are intangible. Ideas, knowledge and information are resources

that do not diminish. Indeed, they even can increase with each use. They are unlike any other resource.

Scores

You can measure the degree to which your company has adjusted to customer capitalism by a series of scores. These scores reveal whether your firm has accumulated an ongoing advantage in its relationship with customers. You must understand your company, its strengths and limitations the way that the new economic model views them.

The Six Customer Loops

Six positive reinforcement loops support the 10 principles of customer capitalism. These self-energizing systems create momentum so you can achieve critical mass.

- The Relationship Loop - The stronger your relationship with your customer, the more money the customer spends. Rising customer expenditures reinforce the relationship, which in turn again causes the spending to rise.
- The Intangibles Loop - The more important intangibles (ideas, information and knowledge) become to the relationship, the more they appreciate in value, which in turn stimulates a further increase in their value.
- The Networks Loop - The more people who are connected by a network, the greater the value of the network. Therefore, more people join the network, which in turn enhances its value again, attracting yet more users.
- The Players Loop - As more players support a service, more customers receive benefits, which increases the value of the relationship and attracts more customers.
- The Developers Loop - The more prevalent a new way of doing things becomes, the more the developers who focus on providing new applications gain greater acceptance for the new methodologies.
- The Costs Loop - The more resources the various players share, the lower the cost, which encourages the players to contribute more resources.

Locking Onto Your Customer

Customer capitalism relies on several critical mass or positive feedback loops that enhance customer loyalty. When all of your customer feedback loops work in an integrated and fully converged fashion, your customer will "lock on" to your product and service in an ongoing way. Thus, you will establish an anchor of committed customers who may stay with your firm for life, even as its products and services evolve.

“Customer capitalism, unlike traditional capitalism, means that a corporation’s success is not based on the failure of others.”

However, these business linkages must be seamless. If the products are not fully integrated from the user’s perspective, your customer can fall into the hands of one of your competitors. Success breeds success. The new economic model suggests that if you properly assemble and construct your market space, and then continue to anticipate the needs of your customers, you can manipulate the customer feedback loops to give you an ongoing, long-range relationship with a locked in customer base.

“Personalization is about giving individual customers exactly what they need to suit their unique requirements.”

Heed one warning: The "force multiplier" effect of the new economy can magnify your success, but it also can magnify your failures. Negative loops can drive your customers away, just as positive loops can draw them in. Your new enterprise must be nimble, and ready to provide what the customer needs in the market space at hand.

The War of Capitalisms

Today we see an ongoing struggle of survival between traditional capitalism and the new customer capitalism. For example, while traditional bookstores evolve sluggishly, Amazon.com has created "the world’s biggest book store." This same war is taking place in most other industries.

“It is only when all six loops are managed together as one interlinking, reiterative system that corporations can get customer lock-on.”

Customer capitalism has a revolutionary aim: to fundamentally transform the status quo while relying on the inexhaustible resources of knowledge intangibles. Despite the recent stock market plop, the basic dynamics that have driven the knowledge economy into prominence still exist. While the war will rage back and forth with plenty of wins and losses on both sides, the direction that things are headed in is clear. Customer capitalism will help you capture a market space and lock in your customer base for many years to come.

About the Author

Sandra Vandermerwe, a management expert, holds the Chair of Management and is Professor of International Marketing and Services at Imperial College in London. She has consulted and conducted research on behalf of many business organizations. She won the European Marketing Case of the Year award several times, and has written two other business books.
