



Book Flip the Funnel

How to Use Existing Customers to Gain New Ones

Joseph Jaffe
Wiley, 2010

Recommendation

Companies traditionally use the mass media to market their products and services, spending much of their budgets on hit-or-miss communications. They hope their messages will somehow penetrate the media din and reach a sufficient number of receptive prospects who will go out and buy their goods. Without a strategy for retaining clients, firms repeat this expensive process again and again. Marketing consultant Joseph Jaffe says this is completely backward. Instead, companies should focus on enhancing the experiences of their existing clients, converting them into engaged, enthusiastic advocates who will provide powerful, credible word-of-mouth advertising. Although many of Jaffe's ideas are a bit commonplace – his general hypothesis outlines how customer retention is more advantageous than customer acquisition – *BooksInShort* finds that his book presents a logical, cogent case, backed up by many colorful examples. Despite the book's repetition and visually messy layout, marketing executives are sure to benefit from its thoughtful, lively dissection of traditional marketing.

Take-Aways

- Most companies incorrectly spend the majority of their marketing budgets on mass media advertising and other broad-brush promotional activities.
- This costly, simplistic model follows the classic mass marketing formula, “awareness, interest, desire and action” (AIDA), which reaches many uninterested people.
- Instead, shift your marketing emphasis from customer acquisition to customer retention.
- Focus on loyal clients by using the savvy ADIA model, that is, “acknowledgement, dialogue, incentivization and activation.”
- Acknowledge your regulars by showing them that you appreciate their business.
- Engage in conversations with your clients. Facilitate their discussions with each other.
- Reward your steady buyers for their loyalty. Give them an incentive to return.
- Activate your clients by building a social network around your brand and inviting them to participate.
- Provide top-notch customer service every hour of every day all year round. Treat every customer as though he or she were the most important one.
- Empower your patrons to advocate for your company on- and offline.

Summary

The Funnel Is Flawed

Think of the traditional marketing process as a funnel through which information flows in four stages: “awareness, interest, desire and action” (AIDA). The wide end of the funnel is the awareness stage, where companies spend most of their marketing budgets on advertising to gain notice from a broad group of consumers. As the funnel narrows, it filters the pool of perspective buyers and the interest stage becomes important. However, creating and maintaining an appeal to cynical or apathetic consumers amid today's frenzied media climate is a challenge. The next phase of the funnel metaphor is desire, where some consumers make a conscious decision to purchase your offering. Making this breakthrough is tough in a world where thousands of secret sauces hotly contend with each other, but creating “intent to purchase is 95% of the battle won.” After desire comes action. In this phase, consumers will buy your product, as long as they aren't distracted by the garish displays for thousands of other products on the shelves or by some Twitter post in the online world. The funnel is flawed. The main reasons are:

- **It's obsolete** – The funnel depicts a sequential, logical progression from wide top to narrow bottom. However, individuals today do not act sequentially.

Perhaps they never did. Indeed, when it comes to purchases, people pop back and forth from one product to another, depending on the latest information they find online or hear from friends.

- **It's unbalanced** – Oddly, marketers spend most of their money at the wide end of the funnel, where 99.9% of consumers don't care about their goods.
- **It's too simplistic** – The funnel leaves some vital stages out of the purchasing process, such as "research, trial and satisfaction."
- **It's linear** – A "predictable path to purchase" does not exist today.
- **It's open** – Consumers who make it through the funnel fall into a dark abyss, so to speak. Many companies do not try to retain these buyers, who are extremely valuable assets.
- **It's unfinished** – Once a client buys something, companies fail to act. At this point, firms, in some perverse parody of the movie *Groundhog Day*, start the fatally flawed funnel process all over again with an entirely new group of consumers.

"From the Few Come the Many"

Many firms' strategy is to try to sell more products more often at better prices to more people, who will, in turn, advocate their products to others. Considering this, why do so many businesses focus all their energies on one element of the equation – attracting more people? Why do they sift through the dross at the top and the middle of the funnel to find the few pieces of gold that filter out at the bottom?

"Most messages don't make it through the multiple layers of consumers' near-impenetrable defenses, and the ones that do are greeted with either a pitchfork or a pillow."

Sales fits two broad categories: "acquisition-related business," which derives from traditional marketing, and "retention-based business," which stems from existing customers (repeat clients, referrals, and so on). Companies spend vast marketing budgets on acquisition-related business. They employ a "churn and burn" technique: Get people in the door, sell to them, get them out and get new ones in again. They splash out on research to determine whether to focus more on advertising, public relations or digital marketing, for example – all acquisition activities. Churn and burn posits that one buyer is as valuable as the next. Clients, who are not stupid, quickly get the message: The firms that sell to them don't really care about them. This becomes evident on most companies' websites, where it is virtually impossible to get in touch with real live human beings when you have a service issue. Corporate toll-free numbers are just as bad if you want to speak with someone instead of some machine. Indeed, to cut costs, many companies now use technology (the internet, telephony, email, and so on) to box consumers in, not to help them. Instead, they could better optimize their marketing budget by putting their money into retention-based business activities, where the true payoff lies.

"Today, the once-shiny [traditional marketing] funnel is dinged and dented, rusted and dusted."

Certainly, acquisition is essential. You can't exponentially increase business from clients if you have none. But putting too many of your eggs in the acquisition basket is not smart. Judging by their marketing (special promotions for new patrons), most companies actually seem prejudiced against their regulars. However, Zappos, the shoe "e-tailer," has it right. It earns approximately 75% of its sales from repeat shoppers and rewards them with special offers and promotions. This pays off: In 2007, first-time buyers spent an average of \$123 per order; repeat shoppers spent \$156. Though wise, Zappos' strategy is not one that most firms pursue.

"Why – if our customers are the lifeblood of our business – are we not relatively investing in them accordingly?"

Companies that continue to market aggressively in a recession tend to do better than those that do not for three "ABC" reasons: They maintain a positive "attitude," they communicate "boldly" and they maintain "continuity" in taking care of their customers.

Turn the Funnel on Its Head

The time has come to "flip the funnel." Reverse the traditional AIDA process and concentrate your resources at the narrow end of the funnel, making it the starting point of your marketing action. In this way, you can create important relationships with customers, transforming them into regular clients and, later, advocates. For a broader reach, you also can tap the remarkable marketing power of "referrals, recommendations and word-of-mouth."

"At what point should we be shifting our mindset from one that is always reaching out to that arm's-length customer to one where we bear-hug the living daylight out of our customers?"

Flipping the funnel allows you to gain control of your company's marketing dollars and to focus on getting closer to your existing clientele. You have no control when you focus your marketing dollars on the vast media market, where Ford F-150 ads compete against tampon commercials for the public's attention. Plus, paid media advertising has little credibility. Why not concentrate on your customers instead? Help them communicate with each other, touting your company and its products and services via positive word-of-mouth at the workplace, in neighborhoods, and online in blogs, social networks and internet communities. Flipping the funnel involves four stages: "acknowledgment, dialogue, incentivization and activation" (ADIA):

1. **Acknowledgment** – Saying "thank you" to your clients for their purchases shows how much you appreciate their business. Coldplay, an English alternative rock band, gave its followers free albums as a thank you gesture. A restaurant manager can acknowledge patrons by stopping at their tables and welcoming them. Apple recognizes its consumers by enabling them to schedule appointments at the "Genius Bar." Other ways to express appreciation include thank you notes; tenure recognition, as American Express provides with its "Member since" wording on credit cards; and even unexpected gifts.
2. **Dialogue** – This is not a one-off conversation that the cashier in a store conducts with a paying client. Customer discussions are ubiquitous. More often than not, these conversations will take place among clients discussing your company, not with people from your company. If you want to be in the conversation when clients speak positively or negatively about your firm, actively engage in dialogues and pay attention to what existing customers say. Provide viable means of communicating directly with your clients, and help them communicate easily with each other, including "clubs, forums, communities, groups or hubs." Let your regulars know that you listen to them and take their concerns seriously. Respond quickly to complaints. Find an efficient balance between human resources and technology to allow maximum participation.
3. **Incentivization** – Generally, more than two-thirds of a company's revenue come from its existing customers, who contribute sales, recommendations and "formalized referrals." Reward them for their loyalty, since they practically sell your products for you. American Airlines rewards supporters through its Executive

Platinum frequent-flyer program.

4. **Activation** – Build social networks and communities around your brand, making your users feel “part of the marketing ecosystem.” In effect, they become your marketing partners. Nike uses the “Nike Run London” and “Human Race” programs to generate activation by making all Nike wearers part of a global community of runners. Panasonic accomplished its activation goal with its “Living in High Definition” (LiHD) program. Founded in 2008, the online LiHD community is a vibrant organization, a “haven” for Panasonic fans. Activation centers on clients, but “loyalty, word-of-mouth and, most important, sales” power it.

“We must never forget that our tenure in our customers’ hearts and minds is based on our behavior, reputation, performance and consistent ability to prove ourselves trustworthy, valuable and relevant.”

The “three pillars of activation” are “content, conversation and commendations.” To create a sense of identity and kinship among your consumers, create a website that will become the central hub of your community. Seed information about your company and products broadly throughout the internet. Join conversations about your firm and channel the power of referrals by setting up a reward program for customers who conduct word-of-mouth marketing or by promoting the growth of a community of “like-minded, energized and appreciated customers.” Use every media channel possible to achieve this feat, from blogging to “crowdsourcing,” from Twitter to live online chat.

Every Client Matters

Under no circumstances should you give a patron a reason to switch to a competitor. Firms often neglect customer service – after all, it is just another expense. *Au contraire*: It is a strategic driver of sales success, and it generates income for your firm, but you must understand its rules. For example, customer service does not end at 5 p.m. It requires “real-time response.” It is a constant, “proactive and anticipatory” process, not just a reaction to a one-off complaint. It involves much more than merely solving problems. Your workforce must share a strong commitment to consumer relations.

“Companies that continue to invest – and market – during recessionary times almost always reap the rewards of doing so when the economic climate stabilizes.”

However, good service is just one part of a buyer’s experience, which entails “the sum total of all contact points, interactions, transactions and encounters between a customer and a company, its brands, and its various product and service offerings over a determined period of time.” A positive buyer experience may separate companies that survive from those that become extinct. Maximizing your clients’ experience promotes loyalty, which translates to “willingness to repurchase, reluctance to switch” and “likelihood to recommend” – the huge payoffs of applying the “flip the funnel” philosophy. Divide your premium patrons into three categories: the “enthusiasts” (the 20% of your base who make 80% of your purchases), the “influencers” (those responsible for 99% of the positive buzz about your company and its products) and the “evangelists” (people who buy your products and routinely communicate about them positively with others).

“Transforming Mouths into Megaphones”

Accept it: People will talk about your firm whether you want them to or not. You can’t control offline face-to-face conversations, but you can influence what happens online. Empower your clients to promote your products and services in cyberspace and elsewhere. Let them review and rate your products online, for instance. This may sound risky, but don’t be afraid to provide incentives for your audience to grasp hold of the power of “mass dissemination.” For example, if you ask buyers to fill out a customer survey, offer them, say, 20% off their next purchase.

“Be prepared to take the bad and the ugly along with the good if you want to arm your advocates with microphones.”

Don’t forget to motivate and reward your employees (your internal customers), because without satisfied, energized staffers you will never create satisfied patrons. Costco shows its employees that it appreciates them by offering health insurance to the majority of its workforce and by paying higher than average wages for the supermarket industry. As a result, Costco’s employee turnover rate is one-fifth of Wal-Mart’s. When it comes to Costco’s customer service, the payoff for providing superior benefits is clear to see: One shopper even described a trip to Costco as a “religious experience.”

“Put the funnel to your eye. Use it as a spyglass or a telescope. See the world for what it is, but more important, for what it can become.”

When you flip the funnel, you transform your regular clients into a galvanized sales force, an army of enthusiastic ambassadors and exponents for your company, its brand, and its products or services. The result is powerful word-of-mouth advertising – the most effective kind – about your company. This means more business for a smaller budget. Make the switch. Stop being conventional. Focus your marketing resources on loyal customers who truly care about your company. To develop your consumer base “from the inside out,” flip that funnel.

About the Author

Joseph Jaffe is the president of Crayon, a consulting firm that assists clients with their social media and new media strategies. Jaffe also hosts *Jaffe Juice TV*, a web video show on marketing, and publishes Jaffe Juice, a marketing blog and audio podcast.
