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## Customer Advocacy: Is It for You?

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CUSTOMER ADVOCACY– IS IT FOR YOU?

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(5,000 words)

Customer Power is growing, and you need to decide what to do about it. I propose that you advocate for your customers and earn their trust. It may not be a strategy for everyone, but innovative companies are following this path. The marketing paradigm is shifting, signaling that you should probably shift your strategy to suit.

## **Customer Power is Growing – Watch Out!**

Customer power is growing -- customers now have tools that inform them of the true state of affairs. This power enables them to avoid the pushy messages of marketers, make their own decisions and determine what to buy. Five trends create increasing customer power and motivate companies to become more trustworthy.

### 1) Increasing Access to Information

From ConsumerReports.org to epinions.com to Amazon's reader reviews to eBay's seller ratings, consumers now enjoy much greater access to independent information about products and services. For example, 60 percent of U.S. car buyers now use the Internet to research models, features, and prices -- visiting an average of 7 different sites such as Kelly Blue Book, Autobytel, and Edmunds<sup>1</sup>. And 6 percent go on to save an average of \$450 per vehicle by using an Internet buying service<sup>2</sup>.

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<sup>1</sup> J.D. Power, "2002 New Autosopper.Com Study" (J.D. Power, West Lake Village, Ca), October 2002

## 2) Access to More Alternatives

The Internet reduces the search costs for customers to find competing products. Comparison sites, online reviews, and shopbots all enable customers to find the best products at the lowest cost. For example, travelers now enjoy a range of websites (e.g., Travelocity, Orbitz, Expedia, etc.) that help them find the lowest fares on flights. Over 35 percent of leisure travelers utilize the Internet for research. Internet sales grew 37 percent in 2002 to \$28 billion while total travel services fell 5 percent<sup>3</sup>. Sixteen percent of all travel bookings were purchased online in 2003.

## 3) More Simplified Transactions

The Internet simplifies transactions for both consumers and industrial customers. Customers can now connect directly with providers and easily buy goods and services. For example, electronic airline tickets eliminate the need for physically obtaining paper tickets, reducing people's dependency on physically local travel agents. Simplified transactions enable switching – the Internet gives customers the power to both find and buy from a wider array of potential providers.

## 4) Increasing Communication Between Customers

The Internet allows consultation and collaboration between consumers. In healthcare, 110 million people in the United States looked on the Internet for information in 2002 (plus 48 million in Japan, 31 million in Germany, and 14 million in France)<sup>4</sup>. Patients exchange information on the effectiveness of products and provide advice on how to take control of their

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<sup>2</sup> Fiona Scott Morton, Florian Zettelmeyer, and Jorge Silva Risso, "Internet Car Retailing" The Journal of Industrial Economics, December 2001, v XLIX (No. 4), pp. 501-19.

<sup>3</sup> PhoCusWright, "Online Travel Overview" February 2003, p. 1.1

<sup>4</sup> Harris Interactive, "Four Nation Survey Shows Widespread but Different Levels of Internet Use for Health Purposes" in Health Care News, v. 2, No. 11 (May, 2002) Harris Interactive, 2002

medical treatment. When a customer requests a specific prescription, 86 percent of the time that request is honored by the medical provider.<sup>5</sup>

#### 5) Customer Distrust and Resentment

Nearly 70 percent of Americans agree with the statement, "I don't know whom to trust anymore," according to a February 2002 Golin/Harris Poll<sup>6</sup>. Companies are tarnished by accounting scandals and CEOs have lost credibility due to their excessive salaries. Furthermore, customers are resentful of current marketing tactics. Fifty million people signed up for "no call" protection. Eighty percent of consumers are "furious" about pop up ads on their screens -- the same percentage as are furious over spam<sup>7</sup>. This resentment makes consumers fight back.

The point is that the Internet is a great enabler of consumer power. Consumers are more educated and more informed than ever, and they have more tools with which to verify a company's claims or to seek out superior product and service options. Companies must decide what to do in the face of this growing force.

## How Should a Company Respond?

One answer is to "push harder" with traditional marketing methods to torment customers. Another choice is to strengthen relationships, and the third choice is advocating for your customers.

**Push Harder:** It is tempting to respond to the new power of customers by pushing harder to get results through increased media advertising, aggressive promotion, and one-sided

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<sup>5</sup> Manhattan Research, "Cybercitizen Health – The Integration of Information Technology and Consumer Healthcare" 2002

<sup>6</sup>James Lukaszewski, editor, Trust (Golin/Harris, 111 East Wacker Drive, Chicago, Ill), February 2002

<sup>7</sup> Advertising Age, September, 2003

communication that may mislead customers but get the job done. After all, those tactics have been the core of marketing for the last 50 years. But modern-day consumers are far harder to reach and far harder to sway than their more gullible, accessible forefathers. In the halcyon days of media, everyone read their local newspaper and watched the three national broadcast TV channels. The national broadcast networks that formerly enjoyed large audiences have seen the number of prime-time viewers drop over 50 percent since 1970, and much more when compared to the 1960s. Over 100 channels are available in the more than three-quarters of households that use cable or satellite, fragmenting the TV media. It is harder for marketers to push their messages to the millions of eyeballs that they need. Even if the customer is exposed to a TV ad, only 1/3 actually watch the ad -- the others mute the ad, switch channels, or leave the room.<sup>8</sup> Worse, many are switching from the TV screen to the computer screen. Average use of the Internet is almost the same as the TV viewing time, at 15 hours per week, and 36 percent of people say they are watching less TV.<sup>9</sup> But even on the Internet, with its deftly targeted pop-up and banner ads, click-through rates have fallen from 2.1 percent in 1996 to less than 0.28 percent in 2001<sup>10</sup>. Internet service providers and software vendors tout their ability to block pop-ups and spam. Push marketing's reach and effectiveness has dropped dramatically.

**Strengthen Relationships:** In recent years, leading companies have undertaken the strategy of relationship marketing. Building better products through Total Quality Management and emphasizing service, companies have increased customer satisfaction. Backed by Customer Relationship Management software and one-to-one marketing concepts, these companies can target their consumers better and are more efficient in delivering persuasive information and

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<sup>8</sup> Tandemar Corporation, "Quality of TV Viewing Experience" (Tandemar Corporation, Canada) 2000

<sup>9</sup> Jupiter Research, "Marketing and Branding Forecast", Marketing and Branding, v.2 (Jupiter Research, New York, N.Y.) 2002

<sup>10</sup> Jupiter Research, "Marketing and Branding Forecast", Marketing and Branding, v.2 (Jupiter Research, New York, N.Y.) 2002

promotions. This is more agreeable to customers in the new power relationship – better service and more targeted offerings do provide some competitive advantage. But it is not enough. Most CRM programs are based on building a data warehouse, mining the data, and then hitting the identified segments with aggressive email, phone, and Internet promotions with or without their permission. Customers demand more, given their new power.

**Customer Advocacy:** Truly representing your customers' interests is the essence of this third strategy. It means giving customers open, honest and complete information and finding the best products for them even if they are not your products. Advocacy is not a way for a company to cram more marketing messages to customers. Rather, it requires a mutual dialogue and a partnership that assumes if companies advocate for customers, those customers will reciprocate with their trust, purchases, and an enduring loyalty. This is a partnership between customers and companies for their mutual good. There is a duality in advocacy. If companies advocate for their customers, these customers will grant the company their trust. This can lead to growth in sales and profits because customers will choose the company's products and believe the extra value reflected in a higher price is worth it. If customers trust the company, they will tell others about the positive partnership, which will reduce customer acquisition costs as well as provide an opportunity to sell a wider range of products to the customer.

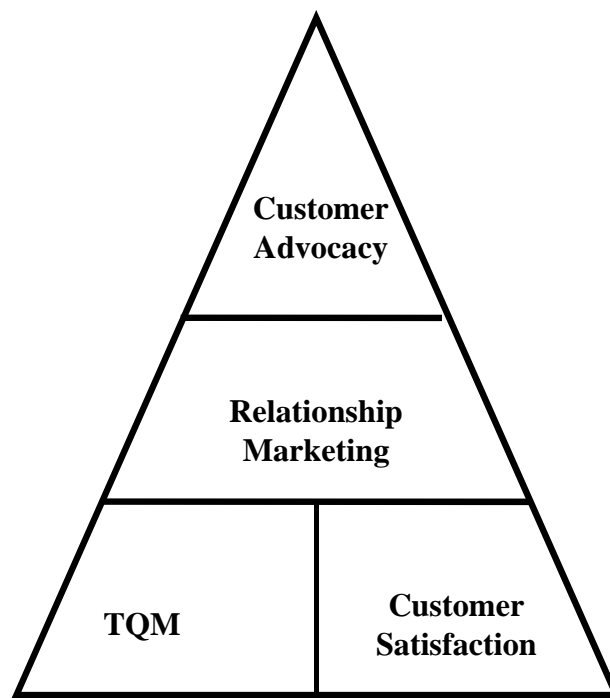


Figure 1 – The Advocacy Pyramid

Advocacy is a major step forward in the evolving relationship between the firm and its customers. Advocacy's predecessor, relationship marketing, was impelled by the saturation of push marketing and intense rivalry, particularly around quality. Advocacy is becoming an imperative because of the growth of customer power. In Figure 1, you will see the pyramid of advocacy. Advocacy has its base in TQM and customer satisfaction – quality products and satisfied customers are core prerequisites for being able to honestly -- and profitably -- advocate for customers. Advocacy is supported at the middle by relationship marketing – learning about each customer and creating a relationship with that customer helps the company know enough about the customer to become the customer's advocate. But the pinnacle is advocacy.

As you reach the top of the pyramid, CRM is used differently. Instead of a targeting of promotion and company communication, it is a program designed to build advocacy based on balanced and transparent information plus advice on how to make the best decision. CRM would be better called Advocacy Relationship Development in the advocacy sphere of activity. Likewise, one-to-one and permission marketing is not simply more micro granularity in delivering promotion and company product information. Rather, it becomes a mutual dialogue between single customers and the firm to maximize the customers interest over the available products in the market.

Although this article stresses the consumer side of marketing, these recommendations are even more applicable when the customer is another business. In industrial marketing, the 20 percent of the sales force that sells 80 percent of the volume owes much of its success to building



advocacy-based relationships with clients. Often the best sales person will advocate for his/her customer by helping solve the customer's problem even if the company's products are not involved.

## **Where Are You on the Trust Dimension?**

Trust is the key to an advocacy strategy – the company must become trustworthy in the eyes of its customers. This means more than saying “trust us.” It does mean taking steps that create a true trust-based relationship between company and customer. The first step in formulating an advocacy strategy is to find out where a company currently is on the overall dimensions of trust and the components that build trust. The next step is to

**Figure 2 – Overall Trust Rating For Three Marketing Strategies**

<p><b><u>Distrust</u></b>                  Skeptical                  Not Confident                  Disloyal</p>	<p><b>P</b></p>		<p><b>R</b></p>		<p><b>A</b></p>	<p><b><u>High Trust</u></b>                  Believe                  Confront                  Loyal</p>
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**P = Push**  
**R = Relationship**  
**A = Advocate**

<b><u>Transparency</u></b> Distorted, Hidden Information	P		R		A	Full, honest information
<b><u>Product/Service Quality</u></b> Low Product Service Quality Fail to meet promises		P		R	A	Quality Best product and service to fulfill expectations
<b><u>Incentive</u></b> Incentives aligned for company, not customer gains	P		R		A	Incentives aligned so employees trust and meet customer need
<b><u>Partnering with Customers</u></b> Leave customer to work out their own problems	P		R		A	Help Customers learn and help themselves
<b><u>Co operating Design</u></b> Customers are sold company solution	P		R		A	Customers help design products individually and through communities
<b><u>Product Comparison</u></b> No comparison or biased comparison	P			R	A	Compare your product to competition honestly
<b><u>Supply Chain</u></b> Customer trust conflict in channel	P		R		A	All supply chain partners aligned to build trust
<b><u>Comprehensiveness</u></b> Marketing pushes services and products	P	R			A	All functions work to build trust

Figure 3

define where the company wants to be on trust dimension and, finally, to formulate programs to get there.

In Figure 2, I show scales for overall trust and position the three marketing strategies on them. A company should determine its specific trust position by market research (see side bar on How to Measure Trust) or executive judgment. An example of a push strategy would be the typical telecommunication company (e.g., Sprint, Verizon, Cingular). Customer trust is not high in them as compared to a company following a relationship or advocacy strategy. A typical example of a company following a relationship strategy would be an auto company (e.g., Ford, GM, BMW). A good example of an advocacy company would be an independent Internet travel service (Travelocity, Expedia, or Orbitz). The second step is to describe the profile of advocacy elements that can create trust. In Figure 3, the three strategies are evaluated on eight strategy components. In practice the specific company would be rated individually on the scales. Examining the profile component ratings allows one to tell why the overall trust ratings are high or low.

**Transparency:** This dimension rates the honesty and openness of company information. To develop a trust-based relationship with customers, a company must become more transparent to those customers. Perhaps the highest levels of transparency would be for travel services, which provide information on virtually all flights and rates. Wireless Telecom services would be rated the lowest because of their complex fee structures. For example, a recent SPRINT wireless ad in the Boston Globe advertised 1000 anytime minutes for \$40. This \$.04/minute deal sounds good until one sees the copious very fine print that stated there was a \$36 dollar activation fee, \$150 early termination fee, \$.50/minute for minutes off the company's network which covers only 80 percent of the USA, and other conditions that may apply.

**Product Service and Quality:** Without quality, companies can never honestly recommend their products and without honest recommendations, there can be no trust and no advocacy. Thus

companies need to evaluate their own products and services. Push strategies may use price to cover up marginal quality, but relationship strategies and advocacy strategies require high product and service quality. Airlines rate low on this scale as unilateral cost reductions, staff cuts, crowding of seats, and long check-in times have made travel distasteful. In the 1980s, USA auto companies had low quality when compared to Japanese autos, but these firms have been working hard to reduce defect levels and have achieved higher J.D. Powers' ratings. So, in Figure 2, auto companies would be rated well on quality and service. Advocacy requires a better level of quality than a relationship strategy. Without the best products, a firm honestly trying to represent the customer interests will not be able to recommend its products.

**Product Comparison:** In a world of high customer power, trying to push inappropriate products onto customers is more likely to create enemies than revenues. Although a company may have good products, only an arrogant marketer or salesperson would think that the company's products are the best possible products for every possible customer. If a company is to use an advocacy strategy, it must be willing to tell prospective customers when they should seek out competitors' products. A stellar example is the auto industry, where KBB (Kelly's Blue Book), Autobytel, Car Point, Cars Direct and others provide honest and unbiased information and comparisons to consumers across all brands.

**Incentives:** Customers are sensitive to what the incentives are for the seller and give full trust only when they are convinced the firm is serious about creating a mutually-rewarding long-run relationship. A good example of a company that tries to maximize its alignment with customers is the discount broker, Charles Schwab and Company. Unlike many other retail brokerage firms, Schwab's brokers are paid a straight salary with no commissions for "churning" the client account. Moreover, Schwab does no investment banking and is thus free to offer unbiased ratings of companies' stocks. The company provides a range of online tools that allow customers to research companies and make their own sound investment choices. Schwab would be rated near the advocacy level on the incentives scale.

**Partnering:** Developing trust means showing the customer that a company is "on his/her side."

One good approach to this is to help customers help themselves. This tactic expands on the notion of a consultative selling relationship to more of a pure consulting engagement. A good example is GE, which is sharing its business knowledge of Six Sigma and business process improvement with its industrial customers through customized workshops and consulting engagements. Although altruistic in appearance, helping customers in areas outside of the strict boundaries of a company's product line provides great value to the company by helping its customers succeed and stay in business.

**Cooperative Design:** By realizing that customers are intelligent and responsible, companies can come to rely on their customers for information and even design ideas. Some companies go even further and attempt to supply their customers with “tool kits” to aid them in creating solutions to their problems that may lead to successful launches of products for the company<sup>11</sup>. Firms can be engaged individually by lead user methods or through user communities. For example, a number of computer companies, including Dell, Apple, and HP, have created online discussion forums where customers may discuss the company's products.

**Supply Chain:** A company is only as trustworthy as its business partners, so the supply chain dimension rates the alignment of channel partners to the company's trust initiatives. In many industries, the manufacturer relies on a network of channel partners, such as distributors or retailers. Thus, these distributors and retailers play a major role in creating the brand image and customer relationship. Companies that implement an advocacy marketing strategy must work with their channel partners to create and reinforce trust. The actions of pushy retail salespeople or shady distributors can damage a hard-won reputation for being trustworthy.

**Comprehensive:** As stressed above, trust seems to be the responsibility of the marketing, advertising, distribution, and sales functions of the firm. But, in reality, creating an advocacy strategy requires more pervasive changes that reach across the organization. For example,

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<sup>11</sup> Stefan Thomke and Eric Von Hippel, “Customers as Innovators: A New Way to Create Value” Harvard Business Review (April 2002).

engineering, production, and R&D are critical to creating trustworthy products that meet customer needs and meet customer standards. Pricing should reflect the premium value of the product and what trust is worth to the customer. Financial allocations need to reflect the long-run return horizon of an advocacy strategy. Human resources, training and hiring must align with the advocacy view of customers so that all interfaces of the firm are coherent with an overall trust-based strategy. The culture of the firm must reflect the primacy of customer advocacy. This advocacy culture extends beyond engendering trust from customers to include earning the trust of employees and stockholders. If employees do not trust the company, customers will not trust the firm either. The CEO must be active in this cultural revolution by leading the effort and by creating incentives and organizational structures that encourage long-run trust-building programs and executives who advocate for the customer. Therefore, the "comprehensive" dimension rates the cross-functional participation and consistency in building advocacy.

## **Where Do You Want to Be on the Trust Dimension?**

The previous section outlined a profiling tool that can allow firms to evaluate their position on the trust dimension. Next, companies need to evaluate their current position relative to where they would like to be on that dimension.

If a company wants to move further to the right on the trust dimension, a range of strategies are available. If a company has a *push* position on trust and wanted to move right on trust to the relationship level (review figure 2), it could do so by examining the component scales in Figure 2. If the firm is low on transparency, it should build honest, open information systems for its products. If the company rates low on product quality, it can embrace one of many existing TQM programs. More typically, a firm would move from a *relationship* position to *advocacy*. Here you need a profile shift in addition to transparency and quality. The company can build advocacy through training, hiring better staff, and designing employee incentives so that employees are rewarded when customers succeed. It could partner with its customers through

market research and communities to get suggestions for new product improvements. The company can use fair comparisons to competitive products to build customer confidence that it has the best products, and it can train its supply chain to be as trust-oriented as the company itself. Finally, the company can build a culture of consumer advocacy across all areas of the firm.

Many firms could be cited for their success in building trust programs (see Ebay sidebar for one example), but here are some specific trust-building programs where systematic research has been done.

**Intel:**

Intel decided it wanted to increase the trust on its download site (the site where customers can download software from Intel), and it performed systematic market experimentation on the site to improve the ease of navigation. Intel found that improved navigation increased download success by a factor of 5 percent points, and this saved the company \$10 million per year by reducing telephone support calls and mailing costs. It also reduced the service demands on channel partners. Further experiments on the camera download site led to a software-based personal advisor named “Rosa,” who helped customers identify their PC camera, select the best download, and get all their questions answered. This advisor improved satisfaction, trust, and success rates for downloading by a factor of 15 percent for visitors who used the site<sup>12</sup>. Currently, Intel is expanding the use of software-based trusted advisors to across its support site.

**Credit unions:** Trustworthy service is a common sentiment expressed by the mission statements of virtually all credit unions – these financial services organizations pledge to serve the interests of their members. But going beyond these words, innovative credit unions (e.g., First Tech , which serves Intel and Microsoft and the Northwest U.S. region), SACU (serving San Antonio’s diverse population), Mission Federal (San Diego), and Patelco (Colorado) have recently

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<sup>12</sup> Glen L. Urban, et. al. "Adaptive Site Experimentation to Build Trust" MIT Sloan working Paper, 2003



implemented online trusted advisors. These online trusted advisors are web-based tools that help credit union customers select mortgages, loan programs, deposit accounts, IRAs, and wealth management.<sup>13</sup> The mortgage advisor system asks an individually-customized set of questions on the left side of the screen while the right side of the screen presents explanations of terms and options along with advice and caveats. The purpose of the tool is to educate customers about the complexity of mortgages and help them select the “perfect mortgage” for them. These Internet advisors are highly rated by their users (95 percent would recommend the mortgage selector to a friend). In addition to serving members better, the credit unions have found that their mortgage business has grown over 65 percent (after correcting for interest rate changes) after implementing online advisors<sup>14</sup>. Although meant for the customer, the online advisor also provides a true time-saving tool for loan officers -- doubling their output of mortgages -- and providing real-time training for phone center personnel to ensure coherence of the message across communication channels (physical outlet, phone, Internet, direct mail and email). Credit unions' advocacy-based strategies are enabling their growth and building a mutuality of interest with customers. Perhaps the country's 10,000 credit unions will evolve into major competitors of big banks and financial services firms.

**General Motors:** General Motors is moving from a relationship position to advocacy on the trust dimension. They have created a trusted advisor called AutoChoiceAdvisor, which is sponsored by GM and J.D. Powers. It is implemented as a separate site and through third-party sites like Kelly's Blue Book and Car Talk as a “decision aid” and certified to be unbiased by these third parties. 700,000 people visited the site in 2003. The advisor asks car buyers to state overall preferences on how they plan to use the car, how much they are willing to pay, what features they feel strongly about, and what brands they like or dislike. After answering as many

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<sup>13</sup> supplied by Experion Systems Inc.

<sup>14</sup> Glen L. Urban Digital Marketing Strategy (Prentice Hall, Upper Saddle River, N.J.), p. 161-62.

-- or as few -- preference questions as they choose, the site presents a ranked list of the top eight vehicles that best fit their needs. The tool uses unbiased data from AIC (Automotive Information Center) and J.D. Power & Associates. Even though it is sponsored by GM, the site often advocates the purchase of non-GM vehicles. The auto advisor has been expanded to include explicit product development feedback by having a virtual engineer listen in on the dialogue between the advisor and the customer to learn about unmet needs and opportunities for design improvements.<sup>15</sup> The AutoChoiceAdvisor is now part of an expanded trust program that includes a comparative drive program called "Auto Show in Motion" (in 2003 more than 200,000 people drove autos from GM and other manufacturers). This was leveraged by a dealer 24-hour test drive program for GM cars. Current efforts are on a TRM (Trust Relationship Management) system that would include outbound communication in response to life events (e.g., new child, off to college, accident, retirement, etc.) to build an enduring relationship, active community development (moderated community space to get design input and build relationships), enhanced loyalty programs through MyGMLink, and integration with ONSTAR mobile services. Finally, GM is involving customers in the design of its new hydrogen fuel cell vehicle through an active Internet community sponsored by GM. These programs move GM significantly to the right on transparency, partnering, co-operative design, and product comparisons. The programs have increased the rate at which GM autos are seriously considered for purchase and have subsequently increased sales.

Companies should examine their company strengths and weaknesses and look at the opportunity/threat posed by the growth in customer power.

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<sup>15</sup> Glen L. Urban and John R. Hauser, "Listening In to Find and Explore New Combinations of Customer Needs" MIT Sloan School of Management (forthcoming Journal of Marketing), 2004

## Is Advocacy for You?

If this author is to follow his own advice, he should alert businesses to the alternatives to trust-based marketing and note that a advocacy strategy is not suitable for everyone. Indeed, many companies face competitive situations, company operating conditions, or customer characteristics that preclude the use of advocacy.

Developing high levels of trust by advocacy can pay off in industries characterized by the following attributes: 1) the products are complex, 2) the products require high customer involvement, 3) customers face a risk of loss if they do not select the right product, 4) many alternative products exist, and 5) large amounts of information are available. In contrast, industries are less amenable to advocacy strategy if: 1) products are undifferentiated, highly standardized commodities, 2) customers are deal prone and only evaluate price, 3) customer have low involvement with the products, or 4) there are no alternatives to the firms products. In addition, the firm's goals can impact the choice of strategy. If short run results are most important and the emphasis is not on long term profit and return on investment, then advocacy may not be useful. Advocacy gives up short-term profits for sustained long-term returns.

Many firms sell products that fit the attribute designation of advocacy above and now have relationship programs, so it is natural for them to respond to the increasing levels of customer power with a movement from relationship to advocacy on the trust dimension.

But even firms with a push positioning on trust can consider significant movement to the right. For example, consider telecommunication firms which fit the push profile in Figure 2. However, Qwest, a company that arguably started with the lowest levels of trust due to charges of fraud and accounting irregularities, is now pursuing a trust-building strategy. Under the leadership of its new CEO, Richard C. Notebaert, it began a campaign called “generations of service” to rebuild employee trust and pride. Next, Qwest developed a “commitment to service” campaign based on improved TQM procedures and better training of call center personnel. Qwest then

simplified its rate plans by charging a flat five cents per minute and reduced its outbound marketing (uninvited calling). Now, Qwest is developing MyQwest.com, which stresses “customer service that really serves customers,” and it will have a virtual advisor to help people select the best service package for them after considering all plans, including those of competitors. The concept is to move to the full trust level (Qwest calls it “blind trust”) of Figure 2 by advocacy strategies and tactics that span all the functions of the company and take this advocacy strategy nationwide.

Although some market situations may seem to make trust an inappropriate choice, in the end it is up to the senior management to examine the space and see if more trust-oriented strategy is for them. I predict that in most cases innovative managers will see that responding to the rise of customer power with advocacy-based strategies is the way to maximize long-run profits.

## **The Paradigm is Shifting – Pioneers Will Gain Advantages**

Evidence is building that the paradigm of marketing is changing from the push strategies suited to 1950-1990 era of mass media to relationship marketing of the 1990s and now to advocacy-based strategies that are essential in an era of growing customer power. Managers need to decide where their firms should be in the spectrum from *push* to *advocacy*. There are advantages to being a first mover in the advocacy space, because once customers develop a trusting relationship with a firm, they are not likely to quickly switch to a competitor. Trust creates a barrier to entry by increasing customer loyalty and by forcing would-be competitors to spend more time and resources to develop a trusted reputation. Even if firms enter and try to compete on the trust dimension, the pioneers will have a superior position if they continue to innovate in the design of advocacy programs. In contrast, not embracing advocacy presents a risk to a firm’s growth and returns if competitors gain the trust of customers first. The movement to a trust-

based strategy does present short-run challenges, but it also offers major long-run opportunities.

Although trust is not the best response in all situations, innovative firms are moving now to implement advocacy based strategies, and early adopters are formulating action plans to advocate and partner with customers. I predict advocacy will increasingly become the norm of behavior in the next 10 years as the new paradigm becomes established and firms meet the threat (and opportunity) of the growth in customer power.

## Sidebars

### S.1. Measuring Trust

Trust can be evaluated by executive judgment, but it is better to do so by market research. Customers often have different levels of trust than managers think they do. One can measure overall trust by a single scale such as:

"Agree or Disagree with the following statement -- 1 means strongly disagree, 2 disagree, 3 neither agree nor disagree, 4 agree, and 5 strongly agree"

I trust Company X

— — — — —  
1 2 3 4 5

But it is better to have multiple measures. Theory suggests three dimensions of trust -- integrity, ability, and benevolence -- so it is recommended that you measure overall trust and the following component measures<sup>16</sup>:

"Agree or Disagree with the following statement"	1	2	3	4	5
Promises made by Company X are likely to be reliable.	—	—	—	—	—
Company X understands the market in which they work.	—	—	—	—	—
I expect that Company X puts customer interests before their own.	—	—	—	—	—

## S.2 eBay Becomes the Killer Application through Trust

In 2002, over \$10 billion dollars of goods exchanged hands at eBay.

The keys to eBay's success are its multiple mechanisms that help buyers and sellers trust each other. One such mechanism tracks the reputations of participants through the feedback between buyers and sellers. Buyers can enter feedback (positive, neutral, or negative rating and description) about a seller and vice versa. Sellers get star ratings based on the number of positive votes (from yellow at 10-99 votes to Gold at 10,000 votes or higher) and the stars appear next to their items. This mutual rating leads to a trust that allows even large amounts of money to be transferred without even seeing an item. Sellers can upgrade to be "Power Sellers" if they

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<sup>16</sup> see David Gefen, "Reflections on the Dimensions of Trust and Trustworthiness among Online Consumers," The Data Base for Advanced Information Systems v. 3, no. 3, pp 38-53, 2002, and Iakov Bart, V. Shankar, F. Sultan, G. Urban, "Determinants and Role of Trust on the Internet: A Large Scale Empirical Study: MIT Sloan Working Paper, September 2003, for a discussion of measurement.

embrace the core values of the eBay community and maintain 98 percent positive feedback. This results in a "Power Seller" label next to their items.

The behavior of bidders on eBay illustrates the profitability of creating trust through reputation. Trustworthy eBay sellers -- those that build a good reputation with buyers through multiple transactions -- enjoy higher prices for their goods at auction. A controlled experiment found that buyers bid 7.6 percent more for goods listed by repeat sellers with high reputations<sup>17</sup>. eBay's feedback systems create the transparency needed for buyers to assign higher monetary values to reputation.

Ebay also has an aggressive fraud protection program, ensuring that less than .01 percent of transactions are affected by fraud. Buyers who change IDs in the last 30 days are flagged with a pair of dark sunglasses to indicate there may be a reason why the person changed his/her ID. For more valuable items, an escrow service is available at Escrow.com that ensures that both the money and the goods reach their respective parties. Another company, Squaretrade.com, provides a range of reputation-enhancing services -- allowing sellers to display a seal that protects buyers from fraud (\$450) and providing dispute resolution services.

These trust builders have enabled eBay to grow and support commerce between millions of seemingly anonymous buyers and sellers. Ebay has even become a major force in used car sales (\$2.5 billion in 2002).<sup>18</sup> Some buyers trust eBay's used car selling system so much that they will travel hundreds of miles to pick up their used car without seeing it in person (they only see it in the detailed pictures and information on the site). Trust is a critical element in eBay's success.

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<sup>17</sup> Resnic, Paul, Richard Zeckhauser, John Swanson, and Kate Lockwood, "The Value of Reputation on eBay: A Controlled Experiment," Working Paper RWP03-007 (John F. Kennedy School of Government), July 6, 2002.

<sup>18</sup> Wall Street Journal "Ebay is Emerging as an Unlikely Giant in Used Car Sales" Feb. 7, 2003, p.A8

### **S.3. From McGregor's Theory X & Theory Y to Theory P & Theory A**

In 1960, McGregor introduced Theory X and Theory Y on the management of employees. Theory X represented an old style of management in which employees were mindless automatons that had to be pushed into working. Theory Y represented a new style of management in which employees were intelligent, responsible individuals that could be trusted to do a good job. The theory of push-based marketing (Theory P) vs. the theory of advocacy-based marketing (Theory A) is analogous to McGregor's Theory X and Theory Y. Just as Theory X and Theory Y are distinguished by management's assumptions about employees, so, too, Theory P and Theory A are marketing's assumptions about customers. The point is: What does your company assume about its customers?

	Assumptions About Employees	Assumptions About Customers
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Old Assumptions	<u>Theory X</u> Employees dislike work Employees must be coerced before they will work Employees prefer to be directed. Employees avoid responsibility.	<u>Theory P -- PUSH</u> Customers avoid decision-making responsibility Customers are passive and must be coerced Customers have difficulty learning and prefer to be influenced Customers have little imagination
New Assumptions	<u>Theory Y</u> Employees will exercise self-direction Employees will become committed based on ego satisfaction Employees seek and accept responsibility Employees have imagination, ingenuity and creativity	<u>Theory A --ADVOCACY</u> Customer decision-making is natural Customers are active and want to control the buying process Customers prefer to learn and make an informed decision Customers have imagination, ingenuity and creativity

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