Beyond Relationship Marketing: The Rise of Collaborative Marketing

Customers are more empowered and connected, which is shifting the balance of power. Consequently, firms must rethink how they interact with customers.

by Mohanbir Sawhney
Kellogg School of Management

The French have a saying: *Plus ça change, plus c'est la même chose*. In times of great change (brought about by the Internet) it is important to reflect upon what has changed (in marketing), and what remains unchanged. When the World Wide Web first burst onto the scene in 1994, it led to a massive explosion in business innovation. The belief in those heady days was that "the Internet changes everything." The network was seen as a disruptive technology that would destroy incumbent businesses, disintermediate existing channels, and overturn the rules of marketing. A diverse array of startup firms used the Internet to create new business models such as portals, exchanges, e-retailing, auctions, and infomediaries. These Internet business models were expected to unleash revolutionary change in every industry. In the financial services industry, for instance, E*TRADE boldly told us to "boot our brokers" and contended that "someday, we will all invest this way." And "being Amazoned" became a popular expression that described the destructive potential of the startups.

Today, the revolution is in trouble, and many of the revolutionaries have bitten the dust. The troubles of Internet-based companies can be traced to the misguided belief that the Internet is a business, and that "pure-play" businesses that use the Internet represent a radically new way of doing business. We now realize that the Internet is a means to an end, and not an end in itself. It merely provides a more effective means to connect and to collaborate with customers and partners. The fundamental principles and the final goals of business and marketing remain the same. Marketing is still about creating value for customers, and capturing value from the firm's activities. Marketers still need to create distinctive offerings, find effective channels to distribute and promote their offerings, and build brands and customer relationships.

The Internet as an Enabler

The new realization is that the Internet is an enabler of more effective marketing for all types of firms, new and old. We are also realizing that established businesses have important advantages in exploiting the Internet, relative to startup businesses. They have customers, brands, capital, channel relationships, and economies of scale. They can leverage these assets, capabilities, and relationships by using the Internet to develop new offerings, increase their reach, and enter new market segments. They can weave the Internet into the entire spectrum of their marketing activities to improve the effectiveness with which they define, design, and deliver offerings to customers. The next generation of marketing will be about how to market through the network, and not how to market on the network. It will be about Internet-enabled business models, not Internet business models. And it will be an evolutionary change, not a revolutionary change. The revolution may be dead. But the evolution will live on for a long time.

And yet, this evolution demands a significant shift in our mental models about marketing. While the goals of marketing have not changed, the Internet does call into question some basic assumptions about marketing. Marketing, at its essence, will always be the process of creating value through exchanges. But the nature of exchanges between marketers and customers has changed dramatically. As customers become more empowered and more connected, the balance of power is shifting toward customers. We are moving from the age of information asymmetry to the age of information democracy. This shift requires firms to think differently about how they interact with customers. And this shift may be the most important development in the continued evolution of marketing.

In the past decade, relationship marketing was the most significant advance in marketing thought and practice. The key insight in relationship marketing was the shift from transactional exchanges to relational exchanges. Instead of maximizing the profit from each transaction, relationship marketing focuses on maximizing profits over the lifetime of customer relationships. It suggests that firms need to create and sustain deep relationships with their most valuable customers. Relationship marketing is a compelling idea, but I believe that it fails to captures the true change in the nature of network-enabled marketing exchanges. Relationship marketing makes the implicit assumption that firms create and manage relationships, while customers play a passive role in the relationships. This assumption is no longer valid in the networked world of business. Customers are beginning to play an active role in managing relationships. Value in marketing exchanges is no longer created by firms and delivered to customers. Rather, customers are becoming co-creators of value by participating directly in the marketing process.

As customers contribute their expertise, time, and resources in marketing exchanges, we are witnessing the emergence of collaborative marketing. I define collaborative marketing as the process of working together with customers to create value in marketing exchanges. Relationship marketing requires firms to think about relating to customers. In contrast, collaborative marketing requires firms to think about collaborating with customers and making customers an integral part of the firm's marketing activities. In collaborative marketing, the network becomes the enabler of collaborative exchanges, which go beyond relational exchanges because they involve reciprocal dependence and maximization of mutual benefits.

The Emergence of Collaborative Marketing

Collaborative innovation allows firms to tap into customer expertise by integrating customers into the firm's new product development process. For instance, Procter & Gamble has created the "P&G Advisors" program to collaborate with customers in developing new products. Customers try new products and provide feedback, allowing P&G to refine products and marketing plans. Before using the Internet, P&G would spend $25,000 to test a new product concept, and it would take two months to complete the test. Now, P&G can do the same test at a cost of $2,500 and get results in two weeks. P&G is also using the Internet to take these new products to market. For example, in launching its Physique hair care products, P&G invited consumers to register on its Physique.com Web site to sample the new products. Within 12 weeks, more than 5 million consumers visited the site, giving a strong start to the product launch. Similarly, the pharmaceutical giant Eli Lilly has created a Web-based community called Innocentive, which has attracted 7,000 research scientists to work with the company to solve chemistry problems in return for cash bounties. This is an astounding number, considering that Lilly has only 300 such scientists on its payroll. Lilly plans to create communities of researchers who can collaborate with each other and with the company to solve difficult research problems.

Instead of thinking about finding customers for their products, companies need to think about finding products for their customers.

Collaborative Design

Collaborative design allows firms to become more deeply embedded in their customers' design and development process. For instance, National Semiconductor is becoming a virtual design facility for its customers by offering a design tool called Webench, which is used by 500,000 design engineers every month to design and test circuits. In 2001, more than 43,000 designs were created on this site, saving customers an estimated $82 million and creating between $1.5 million and $2 million of new design wins for National Semiconductor. Similarly, Texas Instruments dialogued with more than 30,000 high school teachers in developing its new TI-92 calculators. By involving customers in the design process, it ensured that the product accurately met the needs of its customers, and it created a sense of ownership among the customers that leads to intense customer loyalty.

Collaborative Pricing

Collaborative pricing allows customers to become active participants in defining the prices that they want to pay and adapting prices and services to their changing needs. For instance, computer manufacturer Hewlett-Packard has introduced a new pricing program, called "partition pricing," for its high-end servers. In this program, customers pay incrementally for capacity as they need it instead of paying upfront for hardware. This flexible pricing approach allows customers to align the timing and amount of their payments with their forecasted growth. By introducing capacity on demand, pay-per-use financing programs, and flexible service offerings, firms can allow customers to better manage their cash flow by aligning costs to their evolving needs.

Collaborative Segmentation

Collaborative segmentation allows customers to configure offerings to suit their preferences and to self-select into segments. Firms like Herman Miller, Dell, and General Motors allow customers to configure, price, and order products, saving time for customers as well as for the companies. Instead of the firm deciding what segments to target with what offerings, customers what they want by choosing from a flexible menu of offerings that they can configure to suit their needs. By making customers active participants in the segmentation process, firms can make segmentation more accurate and more efficient, because customers know their needs better than marketers do.

Collaborative Communication

Collaborative communication lets firms work with customers to create "just-in-time" marketing communications that are relevant to customers. Automobile companies like GM and Toyota are partnering with Edmunds.com, an online automobile information provider, to create contextual messages that are triggered by customer activity and facilitate customer decision-making. Contextual messaging turns conventional advertising on its head. Instead of "just-in-case" marketing communications that characterize traditional advertising, contextual messaging becomes "just-in-time" communication, because it is initiated by customers, and it is relevant to their context.

Collaborative Support

Collaborative support allows firms to reduce support costs while increasing customer satisfaction by allowing customers to dialogue with the firm and among themselves to solve support problems. For instance, Cisco's Networking Professionals Connection is an online community that allows customers to get answers to support questions from peers and experts. By making customers a part of the support operation, Cisco is able to decrease customer support costs, while increasing customer satisfaction. While the community originally started out as a customer support initiative, it is also becoming a valuable source of new product ideas and competitive intelligence.

While the benefits of collaborative marketing are compelling, it is not easy for firms to make the transition from the "command-and-control" mentality that characterized the age of information asymmetry

WEBLINK – MORE ON THE WEB

Learn how National Semiconductor created Webench to deliver value-added service to key influencers in Phil Gibson's "A Growing Trend: The Integration of Real World and Online Virtual Experience" in this book and on the Web at www.crmproject.com.

Beyond Relationship Marketing: The Rise of Collaborative Marketing

to the "connect-and-collaborate" mentality that will be needed in the age of information democracy. It will require a fresh approach to designing processes, platforms, products, and pricing. Here are the key steps firms need to take on this journey:

Reverse Your Thinking

Firms need to think "outside-in" instead of "inside-out" about their customers and markets. Instead of thinking about finding customers for their products, they need to think about finding products for their customers. They need to understand what customers really buy from them in terms of the business outcomes, solutions, and experiences they seek. They need to understand what activities customers perform as they evaluate, buy, and use their products and services. They need to think deeply about when and where they hand off products, services, and information to their customers. They need to ask which activities they can perform better than customers. Conversely, they need to ask what activities customers can perform better than the firm. To take the first step forward to designing collaborative processes, firms first need to think backward from customer activities and customer processes.

Create Collaboration Platforms

To enable collaborative processes, firms need to build technology platforms that allow customers to connect to their business processes. They need to harness the power of collaborative design tools like National Semiconductor does, community management platforms like Cisco uses, collaborative ideation platforms like Eli Lilly uses, and collaborative configuration tools like the one Herman Miller uses on its Web site for configuring office furniture. These collaborative tools are essential to connect customers to the firm's design process, sales process, order management process, and customer support process. To facilitate customer integration, firms need to map out all the business processes that connect to customers and then think about redesigning these processes so that they interface seamlessly with the customer operations.

Embrace Modularity

To allow customers to self-configure offerings, firms need to make their offerings more modular and their pricing more granular. Dell and Herman Miller are able to exploit the power of "customerization" – customer-driven mass customization, because they create modular products that are highly configurable. On the other hand, General Motors is limited to being able to offer its customers a "locate-to-order" capability, because they cannot create automobiles that can be "built to order." By thinking deeply about the possibilities of modularity, firms can involve their customers much more meaningfully in the segmentation and product configuration process.

Align Incentives

Collaboration will not succeed unless both parties in the collaborative exchange have the appropriate incentives. A key challenge in involving customers in the firm's marketing activities is the reluctance of customers to contribute time and effort to the collaboration. Firms need to think strategically about incentives for customers to share expertise. These incentives can be monetary rewards. For instance, Eli Lilly offers bounties for scientists to solve problems, and P&G offers free samples to its volunteer customers. Incentives can also be social recognition, like Cisco's approach to certifying network engineers who are well-qualified to answer support questions. And incentives can be improved efficiency and effectiveness of the customer's operation because of better process integration. The key is to create a compelling value proposition for collaboration, so that customers and the firm are motivated to engage in collaborative interactions.

Most firms see the Internet as an excellent channel for marketing to customers. But that is not where the Internet's true potential lies. Its true power lies in marketing with customers, by making customers an integral part of the firm's marketing activities, and by seeing customers as a virtual extension of the firm's marketing organization. Seen from this perspective, marketing through the network will require firms to see the network as an enabler of collaborative exchanges. Firms that harness the power of collaborative marketing will be able to extend their enterprise downstream all the way to their end-customers and take their customer relationships to a higher level. ■

Mohanbir Sawhney is the McCormick Tribune Professor of Technology, the Chairperson of the Technology Industry Management Program and the Director for the Center for Research in Technology & Innovation at the Kellogg School of Management, Northwestern University.