

LISTEN to the Customer

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The year 2009 was a difficult year for Domino's Pizza, an established restaurant chain known for its prompt delivery and superior service. Sluggish sales, a social media scandal (employees posted a video of themselves on YouTube tampering with the food) and the results of a consumers' taste preference survey placing the pizza chain last did not help the morale of the company. Consumers' preferences were changing and Domino's needed to catch up with its competitors.

On December 16, 2009, just shy of its 50th birthday, the pizza chain announced it was introducing a new and improved pizza. Everything from the crust to the cheese to the sauce had been changed from the original recipe. The chief marketing officer, Russell Weiner, announced in a press release, "We've created a pizza to reflect what consumers are looking for. We're not talking about a slightly altered version of our previous pizza. It's a completely new pizza reinvented from the crust up, and we are proud of it. To us, it's as big as McDonald's changing the Big Mac, or Burger King reinventing the Whopper. We spent the last 18 months reinventing the brand in anticipation of our 50th anniversary. Our inspiration came from the thousands of direct consumer feedback messages on several social media channels."

**Social media is a valuable
for product development-
if companies are set
up to use it**



tool

Executive Summary

Social media enables firms to acquire knowledge

similar to that of expensive focus groups, but at a fraction of the cost and in mass numbers. With customer feedback in hand, firms can truly understand what their customers want and how to fulfill their expectations. To gain an edge over the competition, however, firms must have an internal organizational structure that takes advantage of customer-generated ideas and must be able to quickly respond to customer concerns.

Although many critics are skeptical of the new Domino's pizza, equating it with the "new Coke" debacle, Weiner mentions an increasingly important marketing strategy—maximizing the value of customer knowledge or feedback. In this article, we discuss how firms can utilize social media to gather valuable insights from customers and, in turn, how those insights can be utilized by the firm.

Complaints and Compliments Lead to Cash

Customers' insights have value. Their feedback can serve as report cards to firms about existing products and services and tell firms if they are meeting customer expectations. Customer feedback not only identifies areas in need of improvement, but also helps provide suggestions and solutions for future upgrades and modifications. Customer insights also offer new ideas for completely new products and services. Given that the failure rate of new products is between 40 and 75 percent, firms should be particularly concerned about what their customers say they want and need. If firms can utilize their customers' knowledge, the failure rate of new products can be greatly reduced. Also, by listening to customers, firms can improve service quality. New and improved products and services can lead to higher profits. There is clearly a financial value to be gained by utilizing customer insights and feedback. This strategic gain is termed as Customer Knowledge Value (CKV) (See Kumar, V., Lerzan Aksoy, Bas Donkers, Rajkumar Venkatesan, Thorsten Wiesel and Sebastian Tillmanns, "Customer Engagement Value: Defining, Measuring and Maximizing," forthcoming, *Journal of Service Research*). Explicitly, CKV is the value a customer adds to the firm through his or her feedback.

For example, CKV can be the additional profits earned or the money saved as a result of a customer's idea. If customers' complaints, compliments and comments are properly managed and addressed, firms will definitely benefit from stronger and healthier relationships with their customers. In addition, if firms offer new products and services that meet their customers' needs better than those offered by competitors, they will see higher profits. Companies that quickly implement

strategies to maximize the CKV of their customers will realize financial benefits that competitors who do not utilize customer knowledge will not realize.

Constructive Criticism

The key to obtaining customer feedback and utilizing customer knowledge is to establish a quick and easy medium for communication. Providing feedback should be natural, interactive and effortless—and for these reasons social media is a particularly useful tool to maximize the CKV of customers. Perhaps the biggest advantage of social media is the direct and unforced line of communication it creates between the firm and the customer. Social media can be defined as a group of Internet-based applications that build on the ideological and technological foundations of Web 2.0 and that allow the creation and exchange of user-generated content.

Through social media channels customers do not have to take the effort to call a customer service number to leave a comment or take time to fill out a comment card. Social media not only makes gathering insights from consumers easier than traditional means (telephone hotlines, company Web sites, surveys etc.), but it also makes it easier to get quality feedback. This is because consumers using social media are already engaged exploring the social media channel. Firms do not have to chase customers for their feedback but instead have attentive customers coming to them voluntarily. Also, it is more likely that users of social media will give both compliments and complaints, as opposed to customers angrily calling a customer service hotline. It is usually only very emotional and dissatisfied customers who take the time to make a phone call or write a letter to a company, whereas on Facebook fan pages (profile pages for firms) it is common for happy customers to leave positive remarks or constructive criticism. It is vital to note here that firms should not be afraid of criticism on social media channels. Firms need to know what they are doing right in addition to what they are doing wrong.

Social media enables firms to converse and maintain an open dialogue with customers. By allowing customers to communicate in real time, customers believe they are being heard and hence are more likely to offer valuable insights. The reciprocity of social media is particularly powerful. Customers' opinions and comments commonly receive responses and are not just left unheard in the virtual world. Also, in an open dialogue, firms are better able to assess latent customer needs. Customers may not always explicitly state what they need, but by reading in between the lines firms may be able to discover hidden needs and be able to address those needs before their competitors can.

Social media enables firms to acquire knowledge similar to that of expensive focus groups, but at a fraction of the cost and in mass numbers. Furthermore, unlike traditional market research techniques that frequently "hound the customer down," social media allows firms to create a friendly space where customers share their feelings and knowledge. There are several social media channels, each one distinct, that firms can choose to employ.

Fan Pages Make Feedback Fun

Firms must decide how they want to involve their customers in the new product development process. Customers can act either as sources of information or as co-developers. Co-developers are individuals who work with the firm to help create new products and services.

In the first case, firms pay attention to what customers have to say and make adjustments to meet customer expectations. In the second case, customers actually collaborate with the firm and are deeply involved with the development of new products. Their level of participation is much higher than that of customers who act as sources of information. In this scenario, customers are empowered and feel ownership in the firm. Recent research advocates that firms treat their customers as active players rather than a passive audience. However, it is still vital to encourage customers to behave as sources of information.

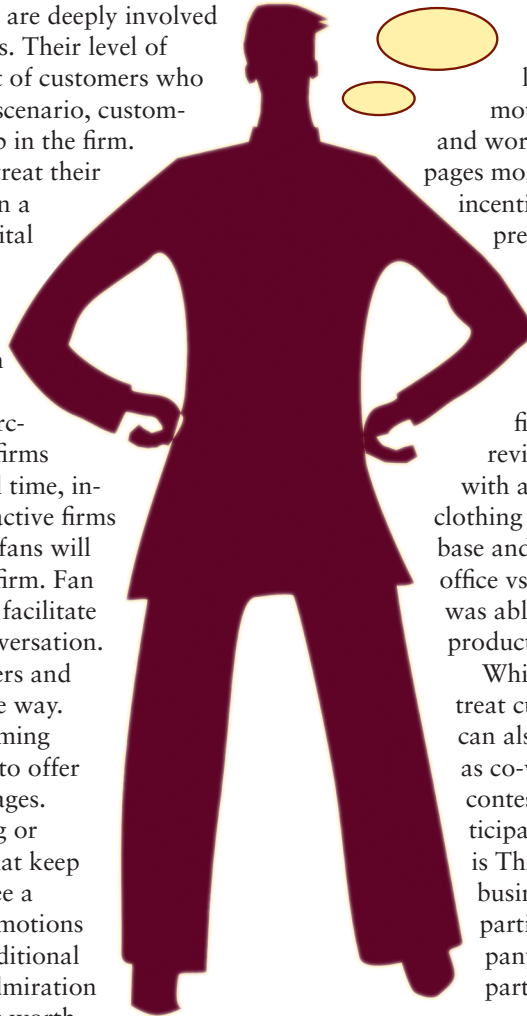
Facebook fan pages are essentially firm profile pages that let firms launch strategies that encourage their customers to behave as knowledge resources. These pages are a touch point for firms and customers. Here firms can, in real time, interact with customers; the more interactive firms make their fan pages, the more likely fans will be to share their knowledge with the firm. Fan pages are excellent places for firms to facilitate discussion and give fans topics of conversation. More important, they engage customers and retrieve information in a non-intrusive way.

One strategy to keep customers coming back with their feedback and ideas is to offer exclusive coupons and deals on fan pages. Special coupon codes for free shipping or other discounts are great incentives that keep customers engaged. Customers also see a firm's fan page as a place to express emotions about the firm. Here, unlike other traditional avenues, customers frequently post admiration for the firm. An interesting hypothesis worth investigation is that customer comments on social networking sites create a halo effect. It is possible that lots of positive feedback from some users influences other users to like a given product even more after reading the positive feedback. Nonetheless, it is important that firms consistently communicate with their fans and constantly provide them with topics of discussion. On these fan pages, many firms explicitly ask for feedback.

Knowing What Your Customers Know

Fan pages are also an excellent means for firms to learn what their customers know. David Yurman, an upscale jeweler, directly asks (as opposed to requesting photos) its

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fans on Facebook how they wear its products. Obtaining customer knowledge gives firms the valuable opportunity to learn about their own products from a new perspective.

Social networking sites are an excellent platform for launching contests that motivate customers to share their knowledge and work with firms. Contests make firm profile pages more interactive and also give customers an incentive to give firms specific information. Express, a clothing company, launched a contest that entered a customer in a drawing for a \$250 gift card for every clothing review he or she submitted. For every picture a customer submitted wearing Express clothing he or she would be entered five times in the drawing. These product reviews potentially provided management with accounts of firsthand experience of how the clothing fit, how it was accepted by its customer base and how the clothing was used (day vs. night, office vs. casual etc.). Through incentives Express was able to retrieve vital information about its products from its customer base.

While social networking sites are best used to treat customers as sources of information, they can also be used to encourage customers to act as co-value creators. One company that uses contests to incentivize customers to actually participate in the new product development process is Threadless Tees, an online t-shirt printing business whose model is built upon customer participation. Its fan page has a link to its company Web site, which encourages customers to participate in the creation of new designs.

Virtual Communities Help Create Value

Virtual communities and blogs allow firms to encourage customers to act as both sources of information and, perhaps more valuable, as co-developers. While social networking sites have vast numbers of customers contributing their insights, virtual communities and blogs provide feedback from a smaller but typically more knowledgeable group of customers. In virtual communities, members with common interests share valuable information with one another. Firms should definitely seek this information and take advantage of this shared knowledge.

Organizations can also create their own virtual communities for a specific audience and explicitly ask for suggestions.

For instance, the University of Texas at Austin has recently launched a university wide program called Ideas of Texas to promote creative problem solving on the campus.

Firm-created virtual communities are vital for incorporating customers' insights into the new product and service development process. They also allow for firms to actually track their customers' insights and attribute them to increased profits and savings. The idea is for firms to create virtual communities made up of a small but knowledgeable group of customers. Firms should facilitate discussion with these members not only to acquire the knowledge they want, but to discover hidden customer insights of which they were unaware. Firms must engage in dialogue with these members and it is important that reports are created by the firm at consistent intervals in time to ensure that the insights are properly recorded and evaluated.

In this open dialogue situation, members can freely converse with one another and the firm. Also, because they feel ownership in the firm due to their heightened value as co-developers, they will be more motivated to offer bright new ideas. These members can be involved in every stage of the new product development process from idea conception to

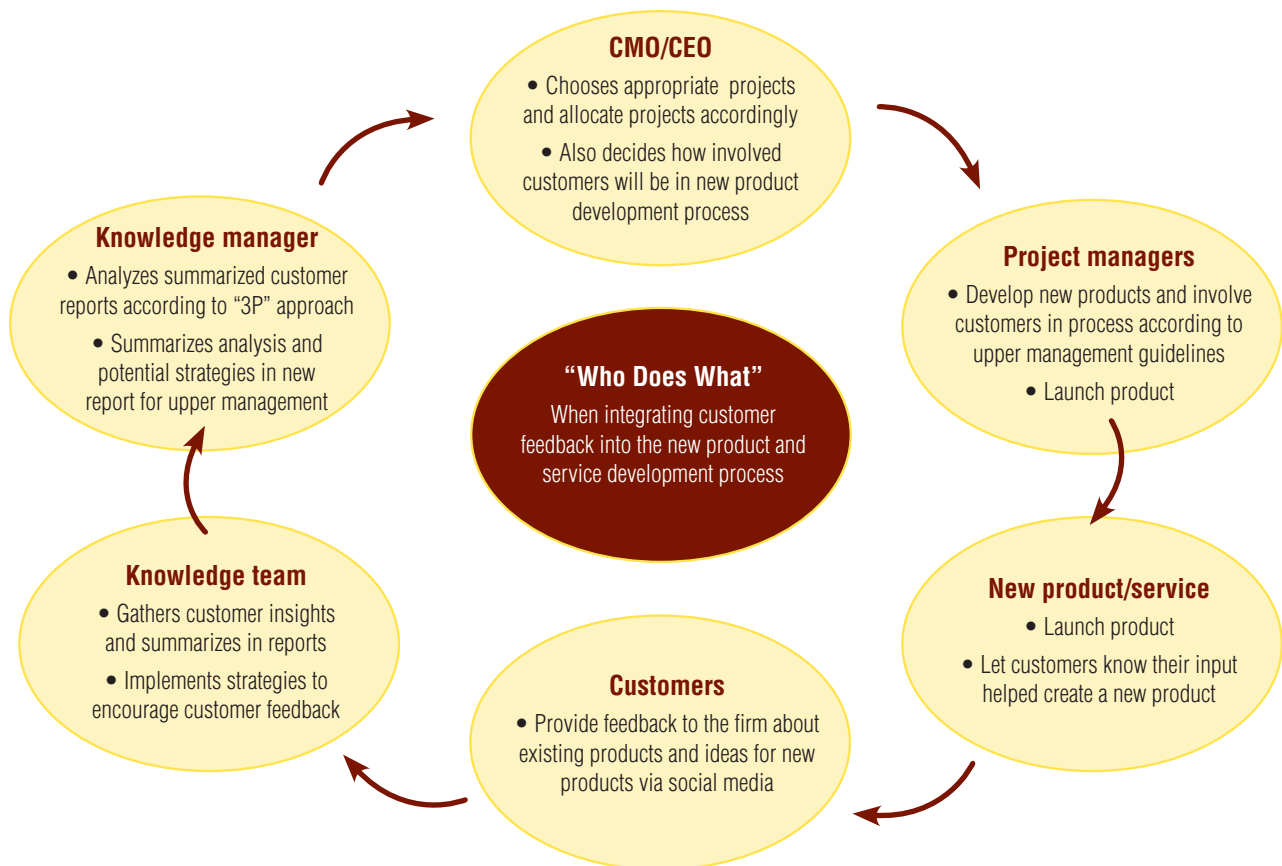
evaluation of the new idea to development of a prototype to even spreading word of mouth during the launch of the new product. Ultimately they can be credited for value creation (profit, sales etc.) by the firm. The profits realized from the new products these customers helped to design and create through their insights and involvement can be attributed as their CKV.

While some companies may only want to collaborate with these members, others may want to incentivize membership to the community through profit sharing or shared intellectual property. In this scenario, customers who are highly involved in the development of new products actually get a cut of the profits or own the patents. Either way, using virtual communities as an idea bank keeps the pipeline of ideas for new products flowing, so when one idea does not meet a firm's objectives another idea is waiting to become a reality.

Monetizing Customer Feedback

Allowing community members to vote on different aspects of a new product or service is another method of evaluating customer insights. Brewtopia, a company that specializes in brewing customized beer for its customers, was conceived

Customer feedback flow within an organization



based on the notion that customers should play an active role in the creation of products. The startup created an online community in which members voted upon every last detail of the beer, from alcohol content to the packaging. The beer was then brewed according to the customer specifications. The initial members were compensated with “viral equity” and were promised dividends based on how well the beer sold. The members were particularly motivated to develop a high quality beer not only because they were beer connoisseurs but because they felt ownership in Brewtopia. Furthermore, the unique customer-driven concept created demand for the beer before it was even released, and Brewtopia was quickly in serious talks with Trader Joe’s supermarkets to distribute the product. Brewtopia shows how utilization of customer knowledge can be monetized and how customers can be credited for their ideas.

Creating Organizational Culture

While methods like the Three P approach or the voting approach are a means to evaluate customer insights, they are only a portion of the customer knowledge management process. It is vital that firms are organized in a manner such that new ideas are quickly communicated to upper management, efficiently delegated to project managers and then turned into a reality.

The concept of knowledge departments may be new to many firms but may aid in interdepartmental communication. The general idea is to have a manager in charge of a team of employees who work to retrieve customer knowledge. These employees create highly engaging social networking sites, virtual communities and blogs. They facilitate discussion and employ the strategies mentioned to learn what their customers know. They should create reports on a regular basis evaluating their customers’ ideas and feedback.

The knowledge manager, in turn, should analyze the reports and look at the big picture of what customers are saying. It should then be the knowledge manager’s duty to quickly address customer concerns within the organization. For example, he or she could give recommendations to the CMO, who in turn could assess how these recommendations fit within the firm’s objectives and then delegate projects to project managers. The point is for customer ideas and feedback to quickly move through the organization and more importantly not get lost or forgotten. Customer knowledge is only valuable if it is utilized by the firm.

Let Customers Know Their Value

While customer concerns should be addressed within the firm, it is equally important that customers know that their voices have been heard.

It is very important that, when customers post complaints on fan pages or blogs, a company representative responds in a meaningful manner. After a customer expressed on one firm’s fan page that she wished the firm would ship to Canada, a representative promptly responded that the firm was looking into it. These types of actions greatly strengthen the customer

relationship. It is also a good idea to let customers know that they participated in the new product development process by inspiring new ideas. When firms make customers feel important they strengthen the customer relationship, which research has shown has a great competitive edge.

However, it is important to note that though utilizing customer feedback is very important there are certain caveats firms should keep in mind. First, firms must take into consideration the credibility of the people offering feedback. It is quite possible that competitors can purposely leave misleading feedback. While this is entirely unethical it is not unthinkable. Also, firms must be very careful not to become too reliant upon customers for innovative ideas. Firms must still concentrate on encouraging employees to offer insights and suggestions for new products and services. Finally, firms should also remember that, though social media has an increasingly wide reach, it is still only used by a segment of the market. Thus, traditional market research methods may still be the only way to listen to their feedback so they are not neglected.

Key Takeaways

In summary, customer feedback is of great value to firms because it allows firms to learn what their customers know. This knowledge greatly aids in the new product and service development process. When firms truly understand what their customers want and how to deliver their customers’ expectations, they have an edge over their competition. Furthermore, because the concept of using customer feedback to generate value is still fairly new, especially in a business-to-consumer context, firms that adopt this perspective will experience greater competitive advantage. Firms must decide how they want their customers to contribute their knowledge: They can act as sources of information or as co-developers. Social media can be used to encourage customers to play both roles. While sites like Facebook can primarily be utilized to generate ideas from customers, firm-created virtual communities can encourage customers to co-develop new products with firms.

Firms must have an internal organizational structure that takes advantage of customer generated ideas and must be able to quickly respond to customer concerns. The goal of firms should be to keep the pipeline of ideas flowing. Utilizing customer feedback ultimately strengthens firms’ relationships with their customers by increasing interaction and showing customers that their insights and concerns are not only acknowledged, but addressed. ●

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