

The Level 4 Customer Value Proposition

EXECUTIVE SUMMARY

Overview

Getting your customers to advocate and build peer influence in your markets is increasingly critical to business growth. Companies that excel at this—such as Salesforce.com, Amazon, SAS Institute and others—are revolutionizing the customer relationship. They’re creating what I call a Level 4 Customer Value Proposition. In this report, you’ll learn how to do so at your firm.



Bill Lee

Why Do It?

Developing a *Level 4 Customer Value Proposition* will:

- Dramatically expand the perceived value your customers receive from you.
- Dramatically increase customer advocacy and influence on your behalf.
- Help key customer influencers build social capital, binding them emotionally to your firm as well as expanding their ability to exert peer influence on your behalf.
- Significantly reduce or eliminate expensive, increasingly ineffective traditional marketing programs.
- Improve your organization: relying on what customers say about you has a profound curative effect on marketing, product development, delivery and customer service.

Key Steps

- Assess: At what level is OUR customer value proposition? (Few firms get beyond Level 2.)
- Gain clarity on how a Level 4 Customer Value Proposition (CVP) can help your firm achieve critical growth goals.
- Move quickly to identify and engage key customers (called “rock stars”) in a Level 4 CVP—and deploy them.

Bill is Founder of the Center for Customer Engagement, President of the Summit on Customer Engagement and author of *The Hidden Wealth of Customers: Realizing the Untapped Value of Your Most Important Asset* (Harvard Business Review Press, 2012)

He can be reached at
+1 214.907.5600 or bill@
centerforcustomerengagement.com



Read the Full Report >>

The Level 4 Customer Value Proposition

Second report of a two-part series. For the first report, "Unleash Your Rock Star Customers," please contact Bill Lee at bill@customerreferenceforum.com or 214-907-5600.

FULL REPORT

Companies that excel at getting their customers to advocate for them and exert powerful influence on their markets—such as Salesforce.com, Amazon, SAS Institute and others—do three things differently from the rest.

First, they cultivate what I call *rock stars*. These are customer advocates and influencers capable of generating tremendous business for your firm. And it just takes a few of these.

Second, they avoid the mistake of incentivizing their rock stars—by offering rewards, untoward perks, quid pro quo arrangements and the like—in ways that undermine the authenticity of their recommendations. Instead they're reinventing the customer relationship by offering rock stars what I call a *Level 4 Customer Value Proposition*.

Third, the most powerful way in which rock stars drive business is by exerting peer influence on your behalf in target markets. Peer influence is the most powerful human motivator. Companies are getting exceptionally creative at getting their rock stars to exert it.

To learn more about rock star customers and how to find them, see my report, "Unleash Your Rock Star Customers." In this report, we'll see how to engage them and, once you do, how they can help you meet your greatest growth challenge.

Assess: How Does YOUR Firm's Customer Value Proposition Stack Up?

An ordinary customer value proposition won't engage rock stars and unleash their potential. I'll show you

The Level 2 Customer Value Proposition is widely perceived as the pinnacle of the value you can create for customers (helping them get a job done) and receive from them (loyalty). That won't cut it for your rock stars.

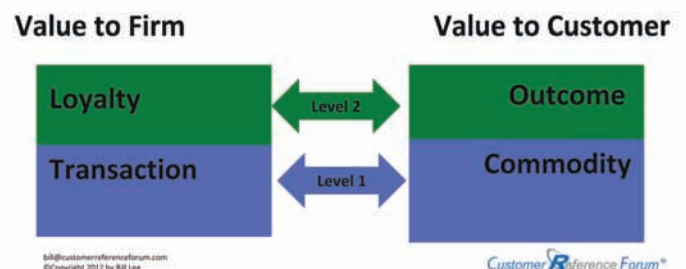
what will in this section. You can also use it to assess where your own value proposition stands.

At Level 1: Customers perceive you as the supplier of a commodity. They're entirely price sensitive. And more companies are at this level than think they are. Think PC makers, who load their computers with features and functionality believing they're adding value and creating differentiation. Their customers, however, find that all the clutter detracts from the user experience.

At Level 2: Customers perceive you as helping them "get a job done," as Clayton Christensen puts it. They associate your product or service with their desired

Reinventing the Customer Value Proposition Level 2

Level 2 is considered the pinnacle of customer value by many companies today.



At Level 4 you're helping customers build their social capital—that is, helping them expand their valuable support communities. That gives them the platform they need to exert powerful, one-to-many peer influence on your market—which is exciting. Peer influence is the most powerful human motivator.

outcome—the fact that you help them achieve that in some way makes you stand out and creates customer loyalty. Significantly (and ironically) companies that reach Level 2 often remove features or functionality that competitors provide. Think Apple, or Southwest Airlines, or for a more recent example, Zipcar.

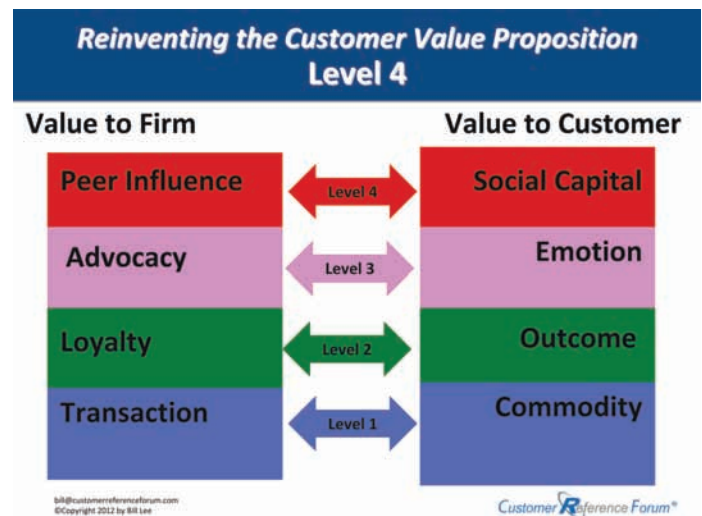
The Level 2 Customer Value Proposition is widely perceived as the pinnacle of the value you can create for customers (providing essential help to achieve the desired outcome) and receive from them (loyalty). In today's world, that won't cut it for your rock stars.

At Level 3: You engage the customer emotionally, which strengthens loyalty and retention and leads to advocacy—meaning that customers are moved to recommend you in one-to-one interactions with their peers. And here's where it gets interesting. Some firms have such great offerings (at least, great compared to the competition) that their products or services alone are enough to create significant emotional attachment—again, such as Apple, Zappos and Southwest. When I fly Southwest, I can almost feel my blood pressure drop as I interact with their friendly people.

But not everyone can create such awesome products or services—and even when you do, maintaining that emotional connection through your products and services may be fleeting. With TiVo, for instance, customers have come to rely on the service so much, they don't even think about it. Firms that excel in the

new world are discovering that they can create strong emotional attachment by moving to the next level...

At Level 4: You're helping customers build their social capital—that is, helping them expand their valuable support groups and communities. That gives them the platform they need to exert powerful, one-to-many peer influence on your market—which is exciting. Peer influence is the most powerful human motivator. (To learn more about social capital, see my Report, "Unleash Your Rock Star Customers.")

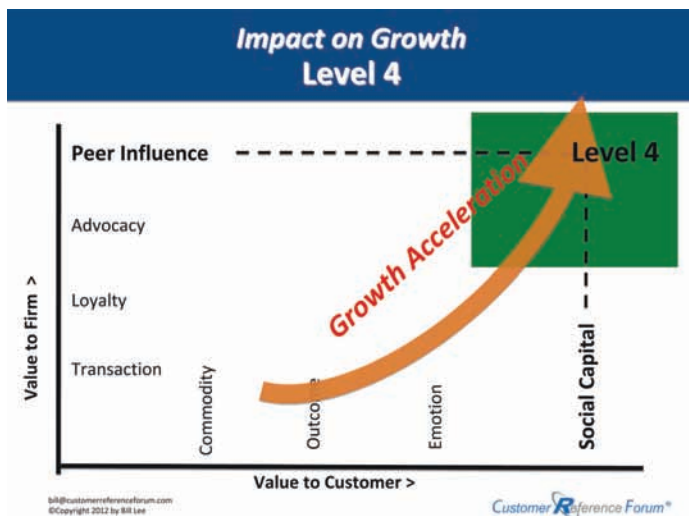


Helping key customer advocates and influencers build social capital may seem far removed from the concerns a competitive business should occupy itself with. But think about it: these days, buyers and prospects are open to receiving, and are even seeking, information from your customers—their peers. Helping your customers build social capital is the way to make it attractive to them to provide this information, and at the same time, give them the platform and reach to do so effectively.

This is an area of tremendous creativity. Next, let's see how your firm can engage rock stars to help you meet your major growth challenge. To stimulate your thinking, we'll see how specific firms are doing this to meet four common growth challenges.

Let Me Count the Ways: Putting the Level 4 Value Proposition to Work

Don't underestimate what the Level 4 CVP can accomplish for your firm. Whatever major growth challenge you're facing, someone is deploying their rock stars to meet it, using a Level 4 Customer Value Proposition to do so. So can you.



Compete against bigger, better-funded competitors

To compete against multi-billion dollar entrenched competitors like Oracle, SAP and other enterprise software firms, CEO Marc Benioff organized Salesforce.com (SFDC) from the first around customer advocacy. Over the years, he's grown particularly adept at putting the firm's users on stage and in the spotlight. Early on, he found that when he put customers together with prospects at local, low-cost, live events, 80 percent of the prospects wound up becoming customers at an approximate cost of just \$250 per person.

What do SFDC "customer sales people" ask for in return? Not monetary rewards or inducements. The opportunity to raise their professional profile, expand their peer networks, and receive recognition—to build their social capital—was enough.

Penetrate new markets

Microsoft engages local "MVP" (Most Valuable Professional—a term sometimes used for "rock star") customers to help the firm penetrate new markets, including developing regions where they don't speak the language or understand the culture. The MVPs use Microsoft's products, blog or present about them to their local communities of users, provide input and even provide services—all of which are critical to the success of penetrating unfamiliar markets. Though small in number, the MVPs generate 20 percent of the firm's marketing content and 28 percent of actionable feedback on new software beta releases, and have saved the firm hundreds of millions in support costs.

What do the MVPs ask for in return? Recognition, status (as the MVP designation indicates), "insider knowledge" about new releases, a say in the firm's products (provided, for example, through beta testing as well as access to Microsoft engineers)—in other words, help them build their own social capital.

Restore declining customer retention rates

Some 250 SAS Canada "customer champions" (another synonym for rock stars) helped the firm restore declining customer retention rates—which had fallen as low as the mid-80s percent—back to the firm's traditional high retention rates of 97 to 98 percent. They did so by participating in an executive council formed by SAS, helping to organize local "forums" in 21 cities around Canada, suggesting speakers, sometimes speaking themselves, participating in an online forum that SAS created, and contributing to a SAS ezine. The entire effort was remarkably cost effective—just three people from SAS were needed to support the entire effort.

What did the SAS customer champions ask for in return? You can probably guess: the opportunity to assume visible leadership positions, get more engaged

with their peer community, deepen their knowledge about SAS's solutions and share that with others—in other words, building social capital—was far more valuable to them than discounts, points or monetary inducements.

Dramatically improve social media marketing efforts

Intel credits well-designed customer testimonials and other customer content for an explosion in qualified lead generation from its social media marketing efforts. The company can't share the numbers publicly, but we can mention these: customer contacts generated by Intel's social media efforts, which had been languishing, jumped from 10 per month to hundreds. Page views of key customer content on Intel.com exploded a hundredfold per month. Within a few years, it expects to bring in a significant percentage of all its new business through its website efforts—and the key to this growth is content from its existing customers.

By the way, in 2011, SFDC (mentioned above) cut traditional lead generation spending by 69 percent while increasing spending on customer videos (by 1,300 percent) and social media. The result was an increase in contacts generated by social media of 400 percent.

Find Your Rock Stars

Your next step is to find **your** rock star customers—those few but potentially very powerful customer advocates and market influencers who can achieve

You have strong product and services, a solid core of passionate customers, and the leader in your market is underserving it—yet as one executive at such a firm in the IT industry put it to me, “No one knows about us.” In today’s world, that business is ripe for rapid growth by developing rock star advocates and influencers, engaged with a Level 4 Customer Value Proposition.

such results for your growth challenges—and start engaging them with the Level 4 Value Proposition.

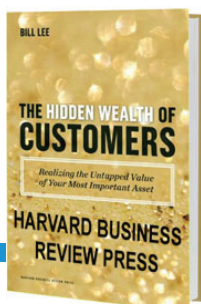
The beauty of rock stars is that they're not hard to find—these are, after all, customers who are particularly interested in gaining visibility and building their social capital. For more information on rock star customers, please ask me for my report, “Unleash Your Rock Star Customers.”

* * *



Bill is Founder of the Center for Customer Engagement, President of the Summit on Customer Engagement and author of *The Hidden Wealth of Customers: Realizing the Untapped Value of Your Most Important Asset*

(Harvard Business Review Press, 2012)



To learn more about this topic, or to obtain other reports from *The Hidden Wealth of Customers*, please contact Bill at bill@centerforcustomerengagement.com or 1+ 214.907.5600.