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The Trust Imperative

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Now is the Time to Build Customer Trust

Nearly 70% of Americans agree with the statement, "I don't know whom to trust anymore," according to a February 2002 Golin/Harris Poll[1]. Although trust in society and corporations seems to be at an all time low, now is a good time for businesses to embark on a trust-based marketing strategy. Increasing customer power will drive a new paradigm for marketing, a paradigm based on advocating for the customer by providing open, honest information and advice. At the same time, this customer power is reducing the effectiveness of old-style push-based marketing. Thus, the shift to trust-based marketing may be more of a mandatory imperative than an optional opportunity.

Trust-based marketing involves much more than dropping millions of dollars on Super Bowl ads that say "trust us." Instead, it is an approach to marketing that shifts and deepens the relationship between a company and its customers. Rather than bombarding passive customers, a trust-based strategy creates a positive relationship with an increasingly loyal customer base.

Trust-based marketing contrasts with traditional push-based marketing in the assumptions that it makes about customer. The old paradigm of push-based marketing assumed that customers did not know what was good for them. Under this old assumption, companies broadcast their hype to push products and services onto an ignorant customer base. The goal was to "push" products onto customers. This contrast between push-based marketing and trust-based marketing parallels McGregor's Theory X and Theory Y. (see Sidebar on Theory P vs. Theory T -- Theory X vs. Theory Y). The key is in changing the assumptions that companies hold about their customers.

Customer Power is Growing – Forces Are Converging: What Should Companies Do About It?

Although some might view trust as a pleasantly nice idea that cannot withstand the brutal reality of modern day business, I will argue that it is business that may not withstand the brutal new forces that underpin the trust imperative. Customer power is growing -- customers now have the tools that inform them of the true state of affairs, avoid the pushy messages of marketers, and help them make their own decisions. The following seven trends increase the relative power of customers and decrease the relative effectiveness of a push-based marketing strategy. There is a convergence of forces that amplify customer power and make the consideration of trust based strategies imperative.

1) Increasing Access to Information

   From ConsumerReports.org to epinions.com to Amazon's reader reviews to eBay’s seller’s ratings, consumers now enjoy much greater access to independent information about products and services. For example, 60% of U.S. car buyers now use the Internet to research models, features, and prices -- visiting an average of 7 different sites such as like Kelly Blue Book, Autobytel, and Edmunds[2]. Many start their online research two months before setting foot on a dealer's lot. And

[1] James Lukaszewski, editor, Trust (Golin/Harris, 111 East Wacker Drive, Chicago, Ill), February 2002

[2] J.D. Power, “2002 New Autoshopper Com Study” (J.D. Power, West Lake Village, Ca), October 2002

6% go on to save an average of $450 per vehicle by using an Internet buying service[3]. Push is less effective when customers have independent means to research a company's claims.

2) Access to More Alternatives

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. The number of Americans who usually buy travel serves over the web increased 75% in 2001.[4] This year, it is estimated that 15% of airline tickets will be purchased online[5]. Leisure and business travelers increasingly refuse to pay high fares, much to the chagrin and financial misery of the airlines.

The Internet has impacted real estate by making wider-spanning and richer information available to homebuyers. Online real estate buying services (eReality and ZipReality) rebate up to 1% of the purchase price, thereby lowering commissions to 4-5 % and saving customers tens of thousands of dollars on the purchase of a house.

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, online ordering and direct shipment makes buying books and electronics possible at any time without leaving home. Electronic airline tickets eliminate the need for physically obtaining paper tickets, reducing people's dependency on physically local travel agents. Simplified transactions also 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

In the past, bad companies lost customers one at a time. At worst, the occasional exasperated ex-customer might convince a few friends to stop buying from the company. But now, the Internet provides global reach for the disgruntled. "iHateBrandX" websites, rating services, and discussion forums accelerate the Darwinian process of weeding out bad products, bad service, and bad companies. On some sites, such as eBay, customers actually rate sellers and provide valuable trust cues for other buyers (see eBay side bar).

In health, 110 million people looked on the Internet for information in 2002 (plus 48 million in Japan, 31 million in Germany, and 14 million in France)[7]. Virtually every disease has active communities of patients who exchange information on the effectiveness of products and provide advice on how to take control of treatment of the medial treatment delivery system. When a

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[3] Fiona Scott Morton, Florian Zettelmeyer, and Jorge Silva Risso, "Internet Car Retailing" The Journal of Industiral Economics , December 2001,v XLIX (No. 4), pp. 501-19.

[4] PhoCusWright, "Travel Consumer Trends Survey" (Phocus Wright, Sherman CT) Nov. 6, 2001

[5] 11% in 2001 (Jupiter Research, May 2002). Estimated 2003 from Jeff Katz, CEO of Orbitz, of 15% in 2003

[7] 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

customer requests a specific prescription, 86% of the time that request is honored by the medical provider.[8]

5) Increasing Skepticism

Corporate scandals have soured many on the merits of capitalism. The early 2000s saw a drum-beat of accounting scandals, declining 401k account balances, layoffs, insider trading accusations, and anti-globalization protests. Meanwhile, the unending flow of "Buy" recommendations on plummeting stocks reinforced consumer cynicism. The combined assaults of these events have created widespread distrust of business. In fact, bad press does real damage. According to a 2001 Booth-Harris Trust Monitor survey, the majority of consumers have stopped using some products due to negative media attention[9]. The pushy claims of advertisers have less power to convince customers. The study found that 96% of customers take action if they do not trust a company, including 84% refusing to purchase from such a company.[10]

6) Decreasing Media Power

Modern-day consumers are far harder to reach and far harder to sway than their more gullible, accessible forefathers. Even as consumers have increased their flow of information, the media channels by which companies push information to consumers have become less effective. Media fragmentation, consumer skepticism, and the time pressures of a modern lifestyle make it harder for companies to push their products on to an unsuspecting public.

In the halcyon days of media, everyone read their local newspaper and watched the three national broadcast TV channels. But now, daily newspaper readers are in the minority, the national broadcasts have lost market share to hundreds of cable channels, and the Internet has diverted attention to a fragmented web of online sites. The national broadcast networks that formerly enjoyed large audiences have seen the number of prime time viewers drop over 50% since 1970, and much more when compared to the 1960's. Over 100 channels are available on cable or via satellite, and they have fragmented 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.[11] Ads lose out in the competition with the refrigerator, the bathroom, family members, other TV channels, electronic games and the Internet. Average use of the Internet is almost the same as the TV viewing time, at 15 hours per week, and 36% of people say they are watching less TV.[12] But even on the Internet, with its deftly targeted pop-up and banner ads, click-through rates have fallen from 2.1% in 1996 to less than 0.28% in 2001[13]. Internet service providers and software vendors tout their ability to block pop-ups and spam. Junk mail gets tossed and more telephone calls are screened by Caller-ID,

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[8] Manhattan Research, "Cybercitzen Health – The Integration of Information Technology and Consumer Healthcare" 2002

[9] Booth-Harris, "Trust the Emotional Glue Behind Customer Loyalty" Trust Monitor (M. Booth and Associates, New York, N.Y.) 2001

[10] same as above

[11] Tandemar Corporation, "Quality of TV Viewing Experience" (Tandemar Corporation, Canada) 2000

[12] Jupiter Research, "Marketing and Branding Forecast", Marketing and Branding, v.2 (Jupiter Research, New York, N.Y.) 2002

[13] Jupiter Research, "Marketing and Branding Forecast", Marketing and Branding, v.2 (Jupiter Research, New York, N.Y.) 2002

answering machines, and no-call registries. Push marketing reach and effectiveness has dropped dramatically.

7) Overcapacity and Saturation of Markets

The economic downturn has generated reduced demand, but even before the recession, capacity was increasing relative to demand. It is estimated that automobile capacity is 33% above demand. The United States Census Bureau reports that sales are 75% of capacity across all industrial sectors[14]. Whether it is autos, consumer electronics, financial services, travel, or telecommunications, capacity substantially exceeds demand. This excess capacity puts increasing pressure on margins and price reductions. Rivalry increases and markets become saturated with the number of brands. Over 200 major automobile model types exist, and even Coke has over 30 variants (flavors and package types). With more choice customers gain the privilege of selecting the exact product they want, often at promotional prices.

Manufacturers faced with excess inventory and shortfall in sales growth have resorted to price reductions. The resulting price wars have been destructive to profits and stock price. United Airlines and US Air testify that bankruptcy is increasingly common as the slippery slope of price cuts leads to matching cuts from competitors, lower service quality, reduced demand, more price cuts and the failure to gain sales and/or profits. At the same time customers are trained to think only of price and are rewarded for disloyalty. Telecom companies are training people to be disloyal with their aggressive deals that promote switching between providers.

The point is that the Internet is a great enabler for consumer power -- consumers are more educated and more informed than ever before. Consumers now have more tools with which to verify company's claims or to seek out superior product and service options. At the same time, companies have less power to push messages onto customers. Companies must decide what to do in the face of this overwhelming convergence of forces. One answer is to "push harder" with traditional marketing methods to torment customers. Another choice is "trust based marketing" and partnering with customers to jointly succeed.

In an era of customer power, untrustworthy companies will be at a competitive disadvantage. The elusiveness of consumers reduces the effectiveness of hype, and the ability of customers to verify the messages of marketers makes hype a very risky strategy. The new Darwinian reality will weed out those companies that do not deliver real value to customers. The point is that companies should consider a trust-based strategy because untrustworthy companies will face increasing difficulties. In the face of these trends, companies have no recourse but to change their relationship with customers.

Trust Can Pay Off

Trust is more than just a self-congratulatory adjective to be appended to a company's press releases. Trust means advocating for the customer's long-term interests. Trust is hard to earn – and easy to loose — but when a company gets it, there are sustained benefits. Trust increases customer loyalty as satisfied customers return to buy repeatedly and widen the range of their product purchases. Trust creates business benefits in four areas:

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[14] U.S. Census Bureau, "Manufacturers' Utilization of Plant Capacity: 2001" (U.S. Department of Commerce, Washington D.C.) October 2002

Reduced Customer Acquisitions Costs: Trust reduces customer acquisition costs in two ways. First, it lowers the cost to acquire each new customer. Rather than waste money on ads that play to empty couches, trustworthy companies enjoy good word-of-mouth reputation. Second, trust lowers the number of new customers that the company needs to acquire to maintain top-line growth. With trust, companies are no longer being constantly forced to acquire new customers to replace the departing dissatisfied customers.

Higher Profit Margins: Trust increases the price that a company can charge – customers are willing to pay more for a quality product from a known trustworthy supplier. The eBay Case Study (see Sidebar) notes how a good reputation leads to 7.6% higher bid prices[15]. Although some customers will be deal-prone, many are willing to pay more to get more. In a busy world, consumers will pay to buy a brand they can trust to avoid the aggravation of problems.

Growth: Trust also helps a company diversify and expand its wallet-share with satisfied customers. When a company becomes a trusted provider, customers will look to the company for more products and services in more categories. Although push-based companies can engage in up-selling and cross-selling, trust-based companies will be more successful to the extent that the customer trusts the company's recommendations. Trust-based companies are also more likely to understand each customer and therefore make meaningful suggestions that lead to higher conversion rates.

Long-Term Competitive Advantage: Trust also lays the foundation for long-term competitive advantage. A better, more consultative relationship with valued customers helps the company to innovate in market-leading directions. Rather than guess what customers might want, trust-based companies have a better understanding of customers and their buying patterns. Trust also builds the brand by fostering a better reputation for the company. When times are turbulent, customers will stick with firms they trust.

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% of the sales force that sells 80% of the volume owes much of its success to building trust-based relationships with clients. Moreover, customer power is also rising among industrial customers. Enterprise software systems help companies track the performance of suppliers. In some cases, the customer company might even have better data about the supplier than the supplier itself does.

The sales of commodity items may be done on a cost-based, push approach, but sales of the raw materials and component parts that to go directly into manufactured goods are a different matter. In fact, trust is far more important in the supply chain, where companies establish long-term relationships with strategic suppliers. Collaborative development of products -- co-creating the supplier's products to mesh perfectly with the customer's products -- is a good example of the types of trusted-based strategic relationships in the supply chain (See GE Case Study Sidebar). And as companies move to lean manufacturing, just-in-time, or outsourcing, they become even more dependent on suppliers. Thus, good suppliers must be trustworthy.

In both consumer and industrial markets the convergence of forces and potential benefits combine to make trust imperative for long run success in the future.

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[15] Resnic, Paul, Richard Zeckjhauser, 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

Building Trust Strategy Step by Step

In order to capture the benefits of trust, a company must have a pervasive strategy to establish itself as the trusted partner of the customer. Seven strategy elements provide milestones to achieving the trust imperative. An evolutionary strategy is the best path to establishing trust with customers, earning loyalty, achieving sales growth and being rewarded by customers with margins that lead to premium profits and stock prices. The trust imperative involves the following strategic actions: 1. Strive for transparency, 2. Realign to be on the customer's side, 3. Help customers help themselves, 4. Put the customers to work, 5. Build outstanding products and services, 6. Compare your products to your competitor's, 7. Create a trust-based supply chain, and 8. Make trust transcend all functions of the firm.

Strive for Transparency

We have all had the experience in the airport of a flight that is supposedly "on time" when it is clear that the aircraft had not even reached the gate 10 minutes before takeoff. That a company would cheerfully persist in claiming that all is well in the face of incontrovertible evidence to the contrary is hardly comforting. In such situations, the customers can only conclude that the company is clueless or lying. Moreover, if a company is wrong in obvious ways, then the customer might wonder if the company is wrong in other, more subtle ways. To develop a trust-based relationship with customers, a company must become more transparent to those customers. This implies providing a channel where customers can track the status of orders, pursue service issues, and gain additional information about the company and its products.

Transparency also helps the company retain customers in the unlikely event of a problem or failure. That the customer can see that the company is working to rectify the problem can go far in assuaging the customer's ire.

At some level, the trend of increasing customer power is a trend toward inevitable transparency. Thus, transparency is not optional, in that customers and third parties will act to expose a company's underperformance. Whether the company admits it or not, the data is out there. When a consumer finds less-than-candid honesty, a “trust buster” occurs and the relationship is broken. Some companies, such as software companies, may try to hide behind licensing terms that forbid the publishing or release of performance data, but when customers find out the data is hidden, confidence wanes.

Build Outstanding Products and Services

Quality is a prerequisite for trust. Without good products and services, a company cannot, in good faith, recommend that customers buy its offerings. To some extent the recommendations for transparency and honest recommendations are intertwined with this recommendation. For example, GM's AutoChoiceAdvisor (see Case Study) works only to the extent that GM offers a favorable combination of models, features, performance, and price. This is not to say that the company must offer high-end, high-dollar goods; rather, it means only that value and features, relative to price, must be favorable.

Regardless of price-performance, quality is a crucial property of trustworthy goods -- one can sell low-performance goods at a low price, but those goods had better reliably deliver the stated performance. Both the GM and GE case studies relate to the issue of quality. GM, for example, has been working hard to reduce defect levels. GE's Six Sigma effort, at the heart of many of its customer consulting efforts, is concerned with improving quality to better than 3.4 defects per million.

Realign to be on the Customer's Side

Companies and customers face a basic conflict over costs, value, and price. Customers seek the best deal, and companies seek higher profits. The core incentives of capitalism would seem to undermine the creation of trust. Nonetheless, companies can align themselves to be more on the side of their customers, creating greater trust and the opportunity for sustained profits through a long-term relationship.

Unfortunately, some businesses aggravate this inherent conflict of interest in ways that harm their long-term business prospects. For example, salesforce incentives and training might encourage actions against the customers' interests, encouraging the salesforce to push the most profitable products onto customers that do not need them. In some cases, salesforce incentives actually harm the company. If customers know that the salesperson has a quota, the customer might wheedle an especially favorable end-of-quarter deal out of a hungry salesperson.

More insidious forms of conflict-of-interest occur when the business has multiple types of customers and a conflict of interest exists between the different types of customers. The most glaring and publicly-visible example of this multi-customer conflict occurs in financial services companies that have both retail and investment banking arms. In such companies, the investment banking customers have paid the financial services firm to sell their stock to the retail customers of the financial services firm. This creates a strong incentive to "put some lipstick on the pig" -- the stock of the investment bank's corporate customer may be unworthy of recommendation, but the incentives for the financial services firm provide strong motive to sell that worthless stock nonetheless. 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. Schwab does no investment banking and is thus free to offer unbiased ratings of companies. The company provides a range of online tools that let customers research companies and make their own sound investment choices.

The point is that crafting salesforce incentives or structuring a business to avoid mutual conflicts among different customer constituencies is a conscious choice that can be made. In a world of customer power, it is far harder for companies to hide those conflicts of interest or those policies that most egregiously abuse the customers (see Sidebar on Credit Unions for a proactive trust-building strategy).

Help The Customers to Help Themselves

Developing trust means showing the customer that your company is "on their side." One good approach to this is to help the customer to 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 (see Case Study), which is sharing its knowledge of Six Sigma and business process improvement with its industrial customers. 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.

At some level, helping the customer to help themselves is a more proactive extension of realigning the company to the customer (See Credit Union Case Study). The difference is that realignment is an internally-focused effort to reduce conflicts of interest between the company and its customers. In contrast, helping the customer is more of an externally-focused active outreach tactic.

Helping the customer actually helps the company in three ways. First, it deepens the relationship between the company and its customers. The shared effort of the project creates a strong social bond that promotes customer loyalty. Second, it helps a company to more fully understand the needs and issues of the customer. By working on the customer's problems, rather than pushing the company's solutions, the company gains insight into the pressing issues of the company. Third, creating improvement and growth in the customer creates growth in sales for the company. In mature industries, the growth rate of supplier companies is limited by the growth rate of the customer. Prosperity for customers means prosperity for the companies that supply them with needed goods and services.

Put the Customers to Work

In realizing that customers are intelligent and responsible, companies can come to rely on their customers for information and even mutual service. Both the company and its customers benefit from changing from a one-way, push-oriented strategy to a two-way, trust-based relationship. The example of GM's AutoChoiceAdvisor (see Case Study) shows how a company can learn more about its market simply by asking customers for their opinions within a mutually-beneficial context. With GM's AutoChoiceAdvisor, the customer gets unbiased data about cars, and GM gets unbiased data about car buyers. 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[16].

Other companies move beyond tit-for-tat information exchange to enlist the aid of their customers. These companies recognize that their customers are creative, ingenious people that may have knowledge and skills that the company does not. For example, a number of computer companies, including Dell, Apple, and HP, have created online discussion forums where customers can discuss the company's products. The majority of these discussions center around the technical problems that given customers are having. In the majority cases, customers answer each other's questions or help with the problem. Company representatives join in, too, helping address issues or problems.

Given the complexity of many modern products and the myriad combinations of usage patterns, no company can be expected to have all of the answers ("I'm having a problem printing from application X to printer Y using computer model Z with operating system version N...."). An open community creates a venue for mutual support in which customers and the company overcome the minor difficulties of using complex products with the innumerable range of peripherals and software packages that exist in the market.

Yet, maintaining such forums is not without risk. Faulty products and spotty customer service are much discussed on these forums. Irate customers often vent their frustration in public for all the other customers of the company to see. Moreover, these forums are often completely public -- even nonowners, competitors, or prospective customers can lurk on these discussion forums. For this reason, a company needs high quality products and good customer service before implementing these types of online forums.

Nonetheless, the overall advantages outweigh these risks when company products and services have sufficiently high intrinsic quality. In summary, the advantages of creating such communities include: 1. the company fosters a relationship with and among its customers, 2. customer loyalty increases

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[16] Stefan Thomke and Eric Von Hippel, “Customers as Innovators: A New Way to Create Value” Harvard Business Review (April 2002), pp.

as customers receive better service and join the community, 3. the company sees lower costs for technical support, and 4. the company learns of new problems and opportunities.

Compare Your Products to Your Competitor's Products

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. Sometimes a competitor's particular product might be better suited to a particular customer. If a company is to become trustworthy, it must be willing to tell prospective customers when they should seek out competitors' products. Honesty is the best policy when there is a risk that dishonesty will be revealed – and increasing customer power means that risk is unavoidable. Because customers have a wide array of information available from other sources for assessment and comparison, a trust-based strategy proactively supplies the information that customers are likely to get anyway.

A good example of this is GM's AutoChoiceAdvisor (see Case Study). This GM-created website helps car buyers chose the right vehicle from among 250 makes and models -- including the full array of competitor's offerings. The use of unbiased data from independent organizations ensures that the site's recommendations are not biased in any way toward GM's offerings.

Another example is Google, the Internet search engine. Although one might think that an Internet company would hold on to all the revenues that it can find, Google is more selective. Google's free search engine is supported by ads. But if a customer's ads are not creating much response, Google will alert the customer of the under-performance and suggest that the customer look for a different media outlet.

Forthright dealing with potential customers also promotes the brand. If a customer is not going to buy from you anyway, then why not leave them with a favorable opinion of the company? Trust is good for long-term sales even if it does not help the company meet a short-term sales quota.

Create a Trust-Based Supply Chain

A company is only as trustworthy as its business partners. 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 a trust-based 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.

Realignment of incentives to reduce conflicts of interest with the customer goes beyond the boundaries of the company. The incentive structures for retailers and distributors impact how customers will perceive a company's products. Even something as simple as volume-related incentives has an impact on trust. Uneven ordering patterns and erratic inventory levels lead to stock-outs and overstocks. Stock-outs frustrate would-be loyal customers by forcing them to buy other brands. Overstocks cause channel partners to push the excess goods, creating mixed marketing messages.

Although this paper concerns marketing, not manufacturing, the upstream supply chain can impact trust and damage a company's attempts to become trusted. An unfortunate example of this is the case of Ford and Firestone tires. Defective tires, made by Firestone and used by Ford on its popular Ford Explorer SUV led to a number of accidents, deaths, and a massive product recall effort. In a late 2000 survey, Firestone was the least trusted company in the U.S., and Ford had the worst reputation of the automakers in the survey. Although Ford claims that its reputation is on the mend, it behooves a would-be trusted company to scrutinize the quality of the components that it uses in manufacturing its products.

Make Trust Transcend all Functions of the Firm

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

Perhaps the biggest trust-related organizational changes are the cultural changes that inculcate respect for the customer. Human resources, training and hiring must align with the trust 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 building customer trust. This trust-generating culture extends beyond engendering trust from customers to include earning the trust of employees and stockholders. High ethical standards and open honest communication with all stakeholders is the corollary of a customer trust based strategy. 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. At some level, a trust-based company should act as if every memo, department meeting, or hallway conversation were publicly available to customers.

Trust is Not for Everyone

If this author is to follow his own advice, he should alert businesses to the alternatives to trust-based marketing and note that a trust-based strategy is not suitable for everyone. Indeed, many companies face competitive situations, company operating conditions, or customer characteristics that preclude the use of trust. Yet, with each reason to not use trust, there are exceptions -- reasons why conditions that preclude trust might change or might provide competitive advantage to those companies that do choose a trust-based marketing strategy.

Competitive Issues that Deter the Use of Trust

Commodities: Industries that are racked by brutal price competition or that sell commodity products may not benefit from a trust-based strategy. Unidimensional price-based competition favors the most efficient producer rather than the most trustworthy one. For commodity products, the fact that competing products are interchangeable suggests that there is little benefit to developing a relationship with the customer. Yet, trust-based marketing of commodity or price-sensitive products might be possible through differentiation (i.e., creating non-commodity product variants) or through service (e.g., superior delivery quality or consultative relationship that helps the customer utilize the commodity).

Monopolies: Companies that face no competition at all need not worry about trust. It would seem that customer power is low to nonexistent where there is no competition. Yet, trust could improve the financial performance even when customers have no choice but to buy from the sole source. At issue is the impact of push vs. trust-based marketing on the quantity of buying. Trust could increase sales if push-based marketing breeds resentment for the monopolist -- that is to say customers would rather forego purchasing anything from an untrustworthy monopolist.

Operational Issues that Deter the Use of Trust

Uncontrollable Quality: Companies that face unavoidable disruptions to product or service quality may not be able to implement a trust-based strategy. If the company, such as an airline, cannot control service quality (e.g., weather and Air Traffic Control congestion causes unavoidable delays), then it is very hard to appear trustworthy. Although transparency helps customers realize that the company is doing all that it can to provide good service under trying circumstances, the reality is that unavoidably low quality of service can be a real trust-breaker.

Uncontrollable Quantity: Trust-based marketing is harder when a company can't forecast or respond to demand in a timely fashion (having excess inventory or stock-outs on a regular basis). With excess inventory of some products and a shortage of other products, a company is more motivated to push the products that it does have than to offer trustworthy recommendations for the products that it doesn't have. Shortages of products also squander hard-won customer loyalty. Paradoxically, developing a trust-based relationship with the customer can actually reduce this problem, providing a timely understanding of customer preferences that lead to more accurate forecasting.

Short-Term Financial Focus: Trust-based marketing is a "high-road" strategy that requires resources to create products and services that are worthy of being trusted. Moreover, it may take time for customers to change their opinion of a company's reputation. Companies with severe financial difficulties or short-term constraints may not have the luxury of becoming trusted. However, maintaining a pushed-based strategy to maintain short-term financial results may lead to long-term failure if customer power continues to grow or if competitors become trusted by customers.

Customer Issues that Deter the Use of Trust

Short-Term Customer Base: If customers do not engage in long-term or repeated purchasing of the company's offerings, then trust may be less relevant. The value of trust is dependent on the importance of reputation. If customers are making one-off purchases with little forethought, then trust is unlikely to improve the company's performance. The key exception to this exception is caused by customer power. If prospective customers have access to rating services or other experienced customers, then the need for trustworthy behavior may be high even if a given customer never makes a second purchase.

Low-Impact Products: The value of being a trusted company is strongly proportional to the impact of the product or service on the customer or the customer’s involvement with the product or service. If a defective product has negligible impact on the customer, then the customer will care less if the provider is trustworthy. In contrast, durable goods, mission-critical supplies, or health-related products need a higher level of trust because the impact of defects is higher. Impact need not be defined by monetary value alone -- for example, a personally meaningful product like flowers can be a high impact product.

Is Trust for You?

Some might feel that the preceding exceptions to the application of trust mean that the old “push” tactics are best. Yet these exceptions are specific and do not apply to every company or market. Managers need to determine if their situation falls into one of these exception categories. But even if an exception does apply, managers can make a strategic decision as to whether they want to continue to fall into an exception category. For example, if a company offers a commodity or low-relevance product, the company could continue to use a status quo push strategy or attempt to differentiate with an innovative product, quality, involvement, and trust. With each possible exception are counter-strategies that let a company to move away from push and toward trust. For example, companies can implement quality measures, improve forecasting, and work to change the locus of competition. The point is that many of the firm's issues that appear to be counterarguments to trust are at the discretion of the management.

Other, highly successful, companies might argue that they already have a source of competitive advantage – that explicit efforts to create trust are unneeded by companies with obvious superiority. Yet history suggests that many forms of competitive advantage can be transitory. New entrants, new technologies, new government regulations, and new customer needs all create hurdles to long-term competitive advantage. Thus, one can argue that a superior company should use its superiority to gain the trust of its customers while it has the advantage. Trust, with its attendant deep customer relationships, also helps the company adapt to many of the dynamic forces that might otherwise derail a one-time market leader.

The rise of customer power mutes any argument for push even where exceptional conditions would seem to rule out the use of trust. Independently-verifiable reputation and long-term relationships with customers will be more important than easily-debunked hype. The ability for customers to learn or track the true performance of companies makes it hard for companies to sustain selfish strategies that emphasize short-term gain at the customer's expense. Likewise, the ability for companies to learn or track the true behavior and profitability of customers makes it less likely that customers will consider only price and sustain disloyal behaviors. Thus, information technology stabilizes cooperative long-term trust-oriented strategies.

Although some industries do not have all the prerequisites for trust-based strategies, these are relatively rare. Fundamentally, for most firms, it is a choice of two approaches. The first gives in to short-run pressures that drag a company into the push game and that often lead to anemic profits, stunted growth, and lackluster stock prices. The second takes a long-run profit maximization view through respect for customers with explicit trust-based strategy formulation.

The Paradigm is Shifting – Pioneers Will Gain Advantages

Evidence is building that the paradigm of marketing is changing from the push strategies so well suited to the last 50 years of mass media to trust-based strategies that are essential in a time of information empowerment. Managers need to decide where their firm should be in the spectrum from push to full trust. Intermediate points that represent building trust can be an endpoint in the trust level or evolutionary steps on the way to a fully trust-based strategy characterized by all the seven steps recommended above.

There are advantages to being a first mover in this strategy space, because once customers develop a trusting relationship with a firm, they are not likely to easily 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. In contrast, not embracing trust presents a risk to the firms' growth and returns if other competitors gain the trust of customers first. The movement to a trust-based strategy does present short-run challenges, but it also offers long-run opportunities.

Although trust is not the best response in all situations, innovator firms are moving now to implement trust-based strategies (see sidebars), and early adopters are formulating action plans to advocate and partner with customers. Trust will increasingly become the norm of behavior in the next 10 years as the new paradigm becomes established and firms meet the trust imperative.

Sidebars

S.1. From McGregor's Theory X & Theory Y to Theory P & Theory T

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 trust-based marketing (Theory T) vs. the theory of push-based marketing (Theory P) 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 T are marketing's assumptions about customers.

	Assumptions About Employees	Assumptions About Customers
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 T --TRUST</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

Point: What Does Your Company Assume About Its Customers?

S.2 eBay Becomes the Killer Application through Trust

Who would have thought that a site started by a French-Iranian immigrant (Pierre Omidayar) to help a girlfriend to sell and trade her Pez dispenser collection would become the killer application of the Internet? Who would have thought that millions of people who have never met each other would buy and sell billions of dollars of goods sight unseen over the Internet? Yet this is exactly what eBbay has become -- in 2002, over $10 billion dollars of goods exchanged hands at the online auction site.

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 visa versa. Sellers get star ratings based on the number of positive votes (from yellow at 10-99 to

Gold at 10,000 or higher) and the stars appear next to their item. 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 embrace the core values of the eBay community and maintain 98% positive feedback. This results in a "Power Seller" label next to their item.

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% more for goods listed by repeat sellers with high reputations[18]. 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% of transactions are affected by fraud. Buyers who change IDs in the last 30 days are flagged with a pair of sunglasses to indicate there may be a reason why the person changed their 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).[19] Some buyers trust eBay’s used care selling system so much that they will travel hundreds of miles to pick up their used car unseen (except in the detailed pictures and information on the site). Trust is a critical element in eBays success. Ebay illustrates the increasing role of transparency and reputation for the creation of trust that underpins all commercial transactions.

S.3. Credit Unions Build Trust to Compete with Big Financial Institutions

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. Going beyond trite mission statements, innovative credit unions such as First Tech (serving Intel and Microsoft and the Northwest region), SACU (serving San Antonio’ diverse population), Mission Federal (San Diego), and Patelco (Colorado) have recently implemented online trusted advisors. This case illustrates how presuming and promoting the intelligence of the customer is beneficial to both customer and company.

These online trusted advisors are web-based tools supplied by Experion Systems Inc. that help Credit Union customers select mortgages, loan programs, deposit accounts, and IRAs. The 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 complex financial decisions that are a fact of modern day life. Yet, despite the complexity of the topics, the Internet advisors are highly rated by their users (95% would recommend the mortgage selector to a friend).

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[18] Resnic, Paul, Richard Zeckjhauser, 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

[19] Wall Street Journal “Ebay is Emerging as an Unlikely Giant in Used Car Sales” Feb. 7, 2003, p.A8

These credit union's trusted-based advisors are more than just a "nice" benefit for customers. The tools also make loan officers more productive since the tools help educate the customers. Thus, when a customer comes into a branch office to complete a loan application (they can also file the application online), the customer understands what they want and why. Although meant for the customer, the online advisor also provides a real time saving tool for loan officers (doubles their thru put of mortgages) and real time training for phone center personnel. Training and use of the same tool that is used by customers helps ensure coherence of the message across communication channels (physical outlet, phone, Internet, direct mail and email).

Overall, trusted-based advisors have helped these credit unions to expand. As well as serving members better, the credit unions find their mortgage business has grown over 65% after correcting for interest rate changes. Some credit unions are even expanding into wealth management where trust is the prerequisite to success. Who knows, perhaps the country's 10,000 credit unions will evolve to be major competitors to big banks and financial services firms. Credit union's trust-based strategies are enabling their growth and building a mutuality of interest with customers.

S.4. GE -- We Bring Good Management Ideas to Customers

GE's "At the Customer, For the Customer" is a corporate-wide initiative to help customer companies learn from GE's management experience with Six Sigma and business process improvement. The program leverages GE's "Black Belts," who are trained leaders in process improvement. These leaders visit customer companies and help those companies improve specific processes. These small-scale consulting efforts are free of charge and are intended to help jump-start rather than actually perform the customer's entire process improvement effort. The program does not even have to relate to GE in any way -- the goal is mainly to transfer best practices and help GE customers remain profitable.

The "At the Customer, For the Customer" program cuts across all of GE's divisions. For example, the GE Aircraft Engines division is helping ailing airlines weather the brutal economic downturn that has hit the travel industry. If airlines aren't flying, they aren't buying GE jet engines, spare parts, or maintenance. The projects go far beyond ones related to the engines that GE sells and supports to include any aspect of airline operations (from finance to flight scheduling to the tire shop) that a GE black belt and Six Sigma effort might help. After the 9/11 attacks, GE Aircraft Engines tripled the number of teams in the field. So far, the company estimates that it has helped kick-off efforts that have saved airlines some $400 million.

Other divisions of GE have their own "At the Customer, For the Customer" efforts. For example, GE Capital performed some 500 such projects in 2001. This included helping Home Depot to improve workflows across the 1,300-store chain. Other projects at other divisions have helped diverse customers improve locomotive reliability, waiting times for CT scanners in hospitals, and copier sales in Europe. Overall, GE did 6,000 of these small projects in 2001, tripling the number of projects from the year 2000. GE's "At the Customer, For the Customer" is designed to help GE's customers by sharing GE knowledge and experience with them, strengthening the relationship, and building trust with customers.

C.5. Trust-Based Automobile Marketing – GM AutoChoice Advisor

AutoChoiceAdvisor is online tool created by GM that helps consumers find the car that best matches their preferences. Whereas most auto sites assume that car buys already know the exact brand and models of cars that they might buy, AutoChoiceAdvisor lets car buyers state overall preferences on how they plan to use the car, how much they are willing to pay, what features they feel strongly about (e.g., gas mileage, towing, etc.), and what brands they like or dislike. After answering as many -- or as few -- preference questions as they choose, the site presents a ranked list of the top five vehicles. Consumers can then do side-by-side comparisons of the vehicles.

The tool uses unbiased data from AIC (Automotive Information Center) and J.D. Power & Associates. Thus, this GM-sponsored site often recommends non-GM cars to the buyer. Indeed, in some cases, all of the top 5 recommendation might be non-GM cars. (Although if none of the top 5 cars are made by GM or its subsidiaries, the site does offer to show prospective buyers the GM car that is closest to their needs as a sixth option.). The site is certified as unbiased and appears on Kelly's Blue Book site as a decision aid.

The site is also strongly protective of consumers' privacy. GM collects only aggregate data on consumer preference and does not collect or sell an individual's data, e-mail address, or force the consumer to register at the site. TRUSTe, an independent privacy organization, has certified the site.

So if GM can't spam the users of AutoChoiceAdvisor and may be sending these prospects off to buy competitor's cars, why would GM create and support the site? GM has three reasons for supporting such a system:

1) Builds trust: Cars are a major purchase and an important tool in modern-day life, thus consumers need to trust their vehicles and, by extension, the makers of those vehicles. GM argues that only honesty and good products will build trust. Customers will find out about non-GM cars regardless of what GM does. Thus, the best that GM can hope for is a fair comparison such as that embodied by AutoChoiceAdvisor.

2) Informs customers: Customers may be surprised at how often GM cars do meet their needs. Like other American car makers, GM has been working hard to improve the quality, price, and features of its line-up, and its JD Power ratings are higher than most people expect. GM believes that it offers good products that will meet people's needs and that an unbiased venue can help introduce its improved products to consumers.

3) Gathers market information: GM learns what car buyers are looking for in a setting that is more honest and more timely than traditional focus groups or surveys. Accurately forecasting consumer's tastes is a required core competency for automakers. Over 20,000 people use the site each month, giving GM valuable insight into shifting trends.

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