PROFITABLE CUSTOMER ENGAGEMENT

Concepts, Metrics & Strategies

V. Kumar
Chapter 7

Customer Influence Value: Really! Where Did You Hear That?

Instructor’s Presentation Slides
Social Media Landscape

Social Media

Online Interaction
- Blogs, Microblogs, and Social Networking

Collaboration
- Wikis, Social bookmarking

Multimedia
- Photo sharing, Video sharing, Livecasting

Entertainment
- Virtual World, Online gaming

Reviews
- Product reviews, User forums, Q&As

Blogs, Wikis, Multimedia, Entertainment, Reviews

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Introduction

- Over **80 %** of global consumers actively influence preference and purchase decision through online social networks and word-of-mouth (WOM)
- Firms **invest in social media channels** to quickly propagate their brand
- Firms are moving away from the traditional one-way advertising to **two-way dialogs through social media**
- Social media is present in many forms – blogs, collaborative projects, photo sharing etc. Also there are several platforms like Facebook, Twitter etc. that integrate all of these services in one place
Power of Social Media

- Social networks address the three key dimensions that people typically look for while connecting with other people: “who”, “when” and “what”

- Social networks enable businesses to gather information on the impact, reach and progress of a product or service
Power of Social Media

- Selection of the right social media and creating the **right message** ensure success in social media marketing.

- Companies can gain insights on **customer preferences and usage patterns** through social media.

- The right individuals who can **influence other users** and spread viral information need to be identified to promote WOM on products and services.
“If you make customers unhappy in the physical world, they might each tell 6 friends. If you make customers unhappy on the Internet, they can each tell 6,000 friends.”

Jeff Bezos, CEO at Amazon.com
The explosive reach of social media becomes unfavorable when social media marketing backfires.
Customer Influence Effect (CIE) – measures the net spread and influence of message from a particular individual

Customer Influence Value (CIV) - calculates the monetary gain or loss realized by a firm that is attributable to a customer (influence), through his/her spread of positive or negative WOM
Seven Step Framework for Creating Successful Social Media Marketing Campaign

1. Monitor the conversations
2. Identify the influential individuals
3. Identify factors shared by influential individuals
4. Locate all the potential influencers who have relevant interests
5. Recruit those influencers
6. Incentivize the influencers to spread the positive word of mouth
7. Reap the Rewards
Seven Step Framework for Creating Successful Social Media Marketing Campaign

- Monitor customer conversations in social media channels to gain inputs regarding customer behavior, customer influence and brand awareness
- Identify the right individuals who can spread positive message about the brand
- Identify the commonality between influencers and identify ways to encourage them to talk about the product/service
Seven Step Framework for Creating Successful Social Media Marketing Campaign

- Locate the potential influencers who have active interests that are relevant to the brand/campaign

- Recruit those influencers to talk about the company’s product or service

- Incentivize the recruited influencers to spread positive WOM about the product/service

- Following the above mentioned steps, businesses will see a quantifiable increase in financial performance, brand awareness and customer engagement
Implementation of the Seven-Step Framework

What is HokeyPokey Looking for?

- Working with limited marketing resources
- Acquire and Retain Profitable Customers
- Higher ROI
- A strategy to capitalize Social Marketing
- Platform to create a buzz about Hokey Pokey
### Drivers of Influence

<table>
<thead>
<tr>
<th>Feature</th>
<th>Description</th>
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<tbody>
<tr>
<td>Activeness Compatibility</td>
<td>Number of times the influencer and their network friends &quot;see and &quot;share&quot; a message.</td>
</tr>
<tr>
<td>Host Clout</td>
<td>Number of user connections and number of users &quot;following&quot; an influencer.</td>
</tr>
<tr>
<td>Talkativeness of Receiver</td>
<td>How often the influencer's message is being retweeted &amp;&quot;hashtagged&quot;.</td>
</tr>
<tr>
<td>Generosity</td>
<td>Like-mindedness and similarities shared by the influencer with their network</td>
</tr>
</tbody>
</table>
User data pertaining to:
- The network he/she belongs to
- The message shared/spread by the user
- The overall message characteristics

**Stickiness Index (SI):** The degree to which the received message appeals to the user, and thereby gets spread further

The spread of influence between users is determined by:
- The presence of a WOM channel
- The reach of the WOM instance
- The further spread of the WOM instance

Organizational data pertaining to:
- Degree to which the WOM is responsible for every receiver to make a purchase in a specific industry
- The contribution margin of the receiver when the purchase is made

Customer Influence Effect (CIE)

Customer Influence Value (CIV)

*Source:* Adapted from Kumar, V., Vikram Bhaskaran, Rohan Mirchandani and Milap Shah (forthcoming), “Creating a Measurable Social Media Marketing Strategy for HokeyPokey: Increasing the Value and ROI of Intangibles & Tangibles, Marketing Science
It is essential to include the influence of a customer on the acquisition, retention and increased share of category spending on other customers while computing Customer Influence value.

- CIV relies on the effect of each customer’s influence on other customers. This effect is called Customer Influencer Effect (CIE).
Implication of CIV for Social Media Marketers

- **Measurement of social media value** – Both tangible and intangible values of social media can be translated into monetary gains that are easily understood by business.

- **Market sensing** – Social media marketers are now armed with tools to understand the market.

- **Accountability in Social Media marketing** – CIE and CIV metrics enable managers to communicate monetary gains rather than intangible measures like engagement and hits.

- **Generalization and scalable evaluation framework** – CIV framework is scalable any retailer, any WOM campaign and any social media platform.
Encouraging and Maximizing CIV

- Social media acts like a **bridge** between customers and companies
- By choosing the **right influencers** from the pool of consumers and appropriately incentivizing them, businesses will be able to maximize CIV
- Some companies take the “broadcast” mechanism to reach out to customers while some prefer the “selective” route to reach out to the customers
More business does not always translate into repeat business

Discounts and price deals do bring in more business & attract customers. But it also works for your competitors!

Power of network effect does not always translate into profits. It can go the other way too!

Businesses believe that customer acquisition leads to profits. But what about customer retention?
Avoiding Pitfalls in Social Coupon Launches

- Customer acquisition does not always lead to profit
  - This negative effect can be mitigated by up selling/cross-selling products to existing customers

- Discounts offered through coupons could lead to losses as customers expect low price all the time
  - Companies need to design their coupons carefully – for example offering discounts on lean business days

- Social coupons cannibalize revenues from existing customers
  - Social coupons should be offered only to new prospects and not existing customers
What Should the Firm Do to Improve Profits

We undertook a study to understand how social coupon campaigns could be optimized and the common pitfalls associated with them (described in the previous slide) avoided.

<table>
<thead>
<tr>
<th>What-if the businesses had...</th>
<th>It Reduces the Shortfall in Profits for the</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Ethnic Restaurant by...</td>
</tr>
<tr>
<td>Increased the # of new customers by 1</td>
<td>- $14</td>
</tr>
<tr>
<td>Decreased the coupon discount rate by 1%</td>
<td>$68</td>
</tr>
<tr>
<td>Decreased the % of existing customers receiving the coupon by 1%</td>
<td>$187</td>
</tr>
<tr>
<td>Increased the # of new customers by 1 and Decreased the coupon discount rate by 1%</td>
<td>$55</td>
</tr>
<tr>
<td>Increased the # of new customers by 1 and Decreased the % of existing customers receiving the coupon by 1%</td>
<td>$174</td>
</tr>
<tr>
<td>Decreased the coupon discount rate by 1% and Decreased the % of existing customers receiving the coupon by 1%</td>
<td>$256</td>
</tr>
<tr>
<td>Increased the new customers by 1, Decreased the coupon discount rate by 1% and, Decreased the % of existing customers receiving the coupon by 1%</td>
<td>$243</td>
</tr>
</tbody>
</table>
Redesigning the Social Coupon Strategy

- Set reasonable campaign objectives – Anticipate the extent of shortfall in profits and have a suitable marketing plan
- Design personalized and targeted social coupons – Target appropriate audience with relevant deals
- Design coupons on the nature of service offered – Different strategies need to be developed for frequent services vs limited use services
- Consider alternate promotional campaigns – If customer acquisition is the only goal, alternatives such as referral programs need to be explored instead
Relationship between CLV and CIV

- When a customer is highly engaged with the brand, he/she will be more convincing when they influence others.
- Credibility can be established without purchase history.
- Customers with high Customer Lifetime Value (CLV) are more likely to be powerful influencers.
- The relationship between CLV and CIV is directly proportional. When CLV increases, CIV also increases.
Relationship between CIV and CBV

<table>
<thead>
<tr>
<th>High CBV</th>
<th>Low CBV</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Introverted Fans</strong></td>
<td><strong>Bystanders</strong></td>
</tr>
<tr>
<td>They value the brand highly but they do not influence other customers.</td>
<td>They do not value the brand, nor do they influence other customers to buy/use the product or service.</td>
</tr>
<tr>
<td><strong>Strategy:</strong> Encourage them to be active on Social Media</td>
<td><strong>Strategy:</strong> Spend less on them unless they are high CLV customers</td>
</tr>
<tr>
<td><strong>Trendsetters</strong></td>
<td><strong>Pushers</strong></td>
</tr>
<tr>
<td>They value the brand very highly and they also influence other customers.</td>
<td>They influence many others but actually do not value the brand that much.</td>
</tr>
<tr>
<td><strong>Strategy:</strong> Nurture them and encourage their social media activities.</td>
<td><strong>Strategy:</strong> Impart brand value to them so as to make them Trendsetters.</td>
</tr>
</tbody>
</table>

Low CIV                  | High CIV

Low CBV                  | High CBV
Regulated Social Media Marketing (RSMM)

- To regulate social media marketing, businesses need to provide a platform for sharing messages as well as offer customers the choice to share or not share their messages.

- Currently, all social media networks are primarily aimed at social networking, rather than serving as platforms for marketing.

- Regulated SMM is to build a marketing-specific network and keep it away from a customer’s personal network.

- Only if a customer opts in, his/her messages on RSMM would be displayed across their personal networks.

- This way, customers are not seen as spam agents by their friends and it also brings in the governance needed in these networks.
Sample Framework for Implementing RSMM

Sample Framework

2. Customer registers/opts-in sign-up for receiving promotional messages pertaining to business.
3. Business pushes relevant promotional message(s) to Customer's inbox. (Note: Message not visible to friends if customer does NOT publish or opt to auto-publish.)
4. Customer retrieves message and pushes to friends on "Social Promo Net" or other channels like FB/Twitter/VS+RSMM etc. with option to select whom to share with.
5. Message becomes available to those friends of customer to whom it was shared.
6. Friend picks up message.
7. Uses promo message in business transaction.
8. Business honors promo message and tracks message back to have been shared by customer.

Back to Step 2 for Friend to Register/Opt-in Sign-up.

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End of Chapter 7