The Economist Intelligence Unit

A report from The Economist Intelligence Unit

Engaging the distracted customer:

Pricing strategies and business models for the on-demand economy

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Preface

Businesses and consumers today rely almost exclusively on digital channels to discover and patronise their favourite brands. As attention spans continue to fracture, traditional marketing techniques are being complemented—or even replaced—by innovative, individually targeted strategies aimed at attracting, acquiring and retaining digitally connected consumers and corporate clients. Entire business models are shifting from one-time, capital-heavy transactions to recurring relationships enabled by flexible subscriptions and digitally delivered services. Companies face the challenge and opportunity to monetise new technologies, products, customer relationships and behaviours.

What are the marketing tools and business models companies use to seize customers' attention and reward their loyalty? What innovative pricing strategies and schemes work best to engage and motivate today's consumers and business buyers and lay the groundwork for continued success as preferences continue to evolve? What are the best ways to monetise their assets and capabilities in this fast-moving, interconnected market environment, and how are companies transforming their business models and customer offerings?

This report by The Economist Unit (EIU), sponsored by Oracle, explores these and other critical questions as companies look to engage customers and monetise new technologies and business models.

The findings and views in this report do not necessarily represent the views of the sponsor. The author is Peter Moustakerski and Gilda Stahl edited the report. We would like to thank all the executives who participated.

Interviewees

Blake Cahill, global head of digital marketing, Philips

Paul D'Arcy, senior vice-president and chief marketing officer, Indeed

Jonathan Epstein, chief marketing officer, Sentient Technologies

Lucas Watson, chief marketing and sales officer, Intuit

Who took the survey?

In December 2016 The Economist Intelligence Unit (EIU) polled 165 executives globally on their views and experience in engaging customers through new digital tools and business models and monetising new capabilities. Thirty percent of respondents are based in North America, 30% in Europe, 30% in Asia-Pacific and 10% in the rest of the world. Respondents represent a number of industries, including IT and technology (12%), telecommunications (12%) and financial services (10%). Of those polled, 50% are C-suite members, 26% are senior executives and 24% are managers.

The challenge—and opportunity—for engagement and monetisation

"We're dealing with 'fracturisation' of our customers' attention span; we're competing to engage them in micro-moments"

Blake Cahill,
global head of digital marketing, Philips

For any business looking to attract the attention and loyalty of its customers and convert those into sustainable sales, the marketing airwaves are becoming crowded. "Studies show that the average customer is exposed to 5,000 brands daily," says Paul D'Arcy, senior vice-president and chief marketing officer at Indeed, a global player in the online job search and talent marketplace. "Customer communication used to be episodic—confined to specific moments, eg, a sales call, a meeting and point-of-sale-interaction. We are now past an inflexion point, where the customer relationship and interaction are 'always on'—in fact, the relationship exists in the customer's pocket," he adds.

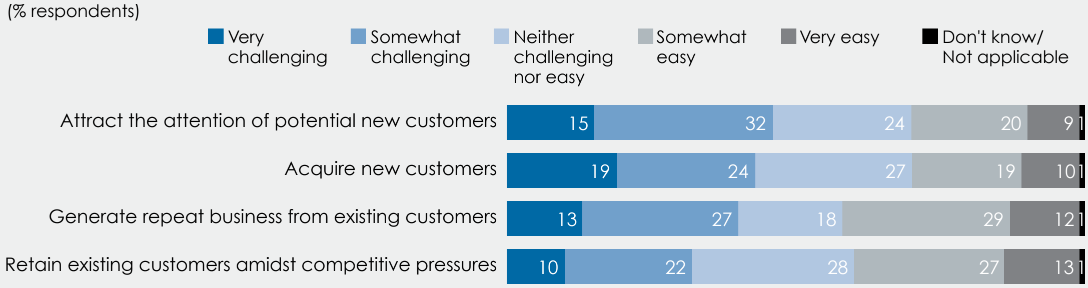
Companies struggle with this new dynamic at every stage of the customer journey. The initial stage of capturing customers' attention is the most challenging—47% of survey respondents consider this stage "somewhat" or "very challenging". By comparison, 43% see the acquisition of new customers as a challenge, 40% struggle with driving repeat business from existing customers and 32% believe customer retention is difficult (see **Figure 1**).

As a result of the information deluge, customers' ability or willingness to focus on any one marketing message is greatly challenged. "We're dealing with 'fracturisation' of our

Figure 1

In your view, how challenging is it for your company today to effectively engage potential and existing customers across the different phases of the customer journey?

(% respondents)

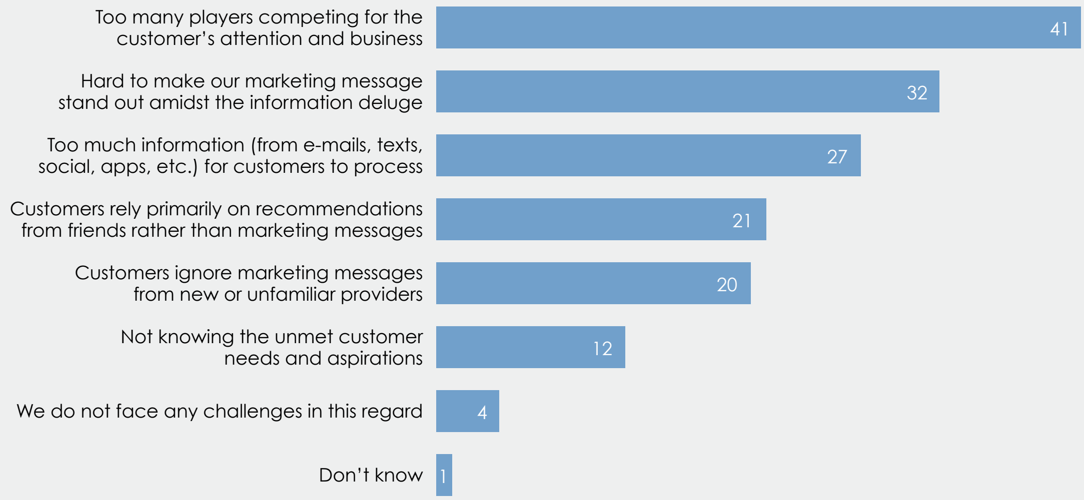


Source: The Economist Intelligence Unit survey, December 2016

Figure 2

Which of the following are major challenges your company faces today in its efforts to attract the attention of potential new customers? Please select two.

(% respondents)



Source: The Economist Intelligence Unit survey, December 2016

customers' attention span—we are competing to engage them for micro-moments," says Blake Cahill, global head of digital marketing at Philips. Companies have to truncate their messages and create "micro-bits of engagement", he says. "The optimal video clip length to grab the customer's attention on Facebook is now 1.7 seconds."

Survey data confirm that companies are very challenged by the crowded and fragmented marketing field—41% of respondents say the presence of too many market players competing for the customer's attention is a top challenge they face when trying to grab the attention of potential new customers. Making their marketing message stand out amidst the information deluge is seen as a top challenge by 32% (see **Figure 2**). Smaller companies, with revenues under US$500m, are even more likely to struggle with this challenge than their larger counterparts.

Less is more: Monetising new and repeat customer interactions

Figure 3

Which of the following are major challenges your company faces today in its efforts to acquire and convert new paying customers? Please select two.

(% respondents)

Source: The Economist Intelligence Unit survey, December 2016

"Conversion is about product selection—making it easier for the customer to find the right product, then making the process of selection simple and effortless"

Jonathan Epstein, CMO, Sentient Technologies

Navigating a crowded and competitive market environment is also a key challenge to converting leads into paying customers and driving repeat business. The conversion stage of the customer journey is often overlooked, says Jonathan Epstein, chief marketing officer at Sentient Technologies, an artificial-intelligence start-up firm founded by the original team that developed the natural language technology that became Apple's Siri. "Because it's hard to get the customer's attention, people focus on acquisition and retention. But we think there is a major opportunity to get higher conversion," he says.

The top issues companies struggle with in the conversion phase are how to offer an attractive price (indicated by 38% of respondents), and how to demonstrate and differentiate their products and services (36%—see **Figure 3**). "Conversion is about product selection—making it easier for the customer to find the right product, and then making the process of selection simple and effortless," says Mr Epstein. "So to drive conversion, it is key to curate choices, to provide less, but more relevant information, and to cut out unnecessary steps," he adds.

The challenge inherent in driving repeat business from existing customers is about mutual awareness—companies knowing their customers' needs and customers knowing what the company can offer. Survey respondents believe the biggest challenge companies face is that customers are not

Figure 4

Which of the following are major challenges your company faces today in its efforts to generate repeat business from existing and past customers? Please select two.

(% respondents)

Source: The Economist Intelligence Unit survey, December 2016

"Personalisation works—people expect their favourite brands to know who they are, without being creepy"

Blake Cahill

aware of all their products and services (40%), followed by customers' propensity to always look for the lowest price and best deal (34%—see **Figure 4**).

Given these challenges, developing a clear picture of the customer's needs and the ability to quickly offer them the product or price they seek is critical to monetisation.

"Having awareness of the user—making them feel 'wow, they are personally aware of me'—is key to repeat business," says Mr Epstein of Sentient. "Personalisation works—people expect their favourite brands to know who they are, without being creepy," points out Mr Cahill of Phillips.

A soft spot: Monetisation through customer retention and loyalty

Ultimately, customer retention—and building a lasting relationship with customers—is the most critical phase of the customer journey, according to survey respondents. A plurality of executives (36%) see customer retention as the most important stage in the customer journey for achieving the long-term success of their company's marketing and business strategy.

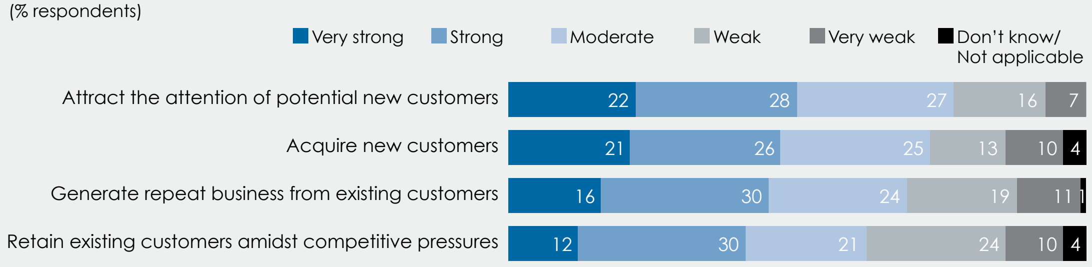
Yet executives widely perceive customer retention as a weak spot. They feel better equipped to engage customers in the earlier stages of the buying journey: 50% of survey respondents rank their capabilities to attract the attention of potential new customers as strong, while only 42% feel the same way about their capabilities to retain existing customers (see **Figure 5**). "Loyalty is a new-ish frontier for our company, and many others—we're just getting started. We're looking to learn and borrow from industries such as hotels, airlines, credit cards and banks that have significant experience with customer loyalty and retention," says Mr Cahill.

The challenges of customer retention are primarily driven by the hyper-competitive nature of today's global marketplace. Retaining customers is difficult because competitors are pricing their products and services aggressively to undercut prices (44% of respondents) and new market entrants are stealing customers' attention (34%). More important, however, the challenge is to build meaningful connections with customers. And that, according to Mr Cahill, is all about connectivity with customers; offering them engaging, relevant content; and constantly inventing new, better business models to meet their needs and serve them better.

Figure 5

How would you rate the strength of your company's capabilities in effectively engaging potential and existing customers across the different phases of the customer journey?

(% respondents)



Source: The Economist Intelligence Unit survey, December 2016

Toolkit of monetisation best practices

The full-time mobile connectivity and information overload that characterise companies' relationships with their customers are posing significant challenges to marketing professionals working to push awareness, conversion and sales growth. Certain tools and tactics work better than others to drive engagement, retention and monetisation in this new environment of on-demand business engagement and always-on customer interactions.

Attract the attention of potential new customers. A compelling social media presence and sophisticated search engine optimisation (SEO) and pay-per-click campaigns are seen as the best way to reach prospective customers amid the clutter of competing messages across fragmented communication platforms. Survey respondents point to social media ads and sponsored content (according to 41%) and SEO and pay-per-click ads (30%) as the most effective strategies to grab the attention of distracted prospective customers. Using social media celebrities and influencers is seen as effective by 28% of respondents, while online and mobile video and geolocation promotions work well according to 27%. Securing the endorsements of advocates and cultivating ambassadors who come out of product-tester focus groups have been successful strategies Philips has deployed to attract and engage potential customers, according to Blake Cahill, global head of digital marketing.

Acquire new customers. Targeting customers where they are through geolocation and offering them a free trial or a compelling product price are considered the most effective strategies to convert prospects to paying customers. Survey respondents agree that location-based targeting (41%) and free trials (36%) are the most effective ways of converting leads into customers. "Taking advantage of tools, such as geolocation and IoT, that help identify customers' proximity to stores will be very effective at conversion," says Jonathan Epstein, chief marketing officer of Sentient. Special offers in email newsletters are considered effective by 32%, and 26% believe customer reviews, testimonials and referrals work effectively to drive conversion. The ability to offer digital coupons and discounts is considered to be valuable for conversion by 25% of respondents. According to Mr Epstein, "to achieve greater conversion, less is more: less process, fewer choices, fewer steps… Except for user reviews—you can't have enough of those."

Generate repeat business from existing customers. To drive repeat purchases from existing customers and upsell them to higher-value offerings, it is key to raise their awareness of what the company can offer them. Product bundling scores highest here—64% of respondents agree that bundling is a highly effective way to drive incremental or repeat business from existing customers. Cross-selling is seen as effective by 45% and 36% point to special offers in email newsletters as a solid strategy for repeat business. Frequent-buyer cash-back discounts are seen as effective by 29% and 28% see rewards points as useful in driving repeat purchases.

Offering pricing and purchasing flexibility is also an important tactic in encouraging returning customers in today's on-demand economy. Rather than requiring an ongoing subscription or charging steep advertising and posting fees, Indeed offers its corporate customers the ability to set their own budget, run campaigns for limited time periods, and adjust or discontinue a recruiting campaign depending on the results they are achieving. The freemium model is also appealing to its customers. "It's free to post a job on our platform," says Paul D'Arcy, senior vice-president and chief marketing officer of Indeed. "We monetise the relationship by offering sponsored searches that deliver access to a broader set of candidates."

Retain existing customers. Survey respondents consider frequent-buyer programmes to be the most effective at retaining customers, including cash-back and discount offers (45%) and rewards points (43%). Partnering with other companies to leverage their loyalty benefits and offer even stronger programmes is considered a best practice, according to 44% of respondents. Retention will also likely be driven by the choice of customer transaction platforms, as the majority of respondents believe transaction platform consolidation is likely to continue. Fifty-two percent of respondents agree that most customer business will be transacted and fulfilled on a few popular web-based platforms like Amazon.

Overall, offering attractive and flexible product bundles and targeted pricing and discounts are considered to be among the most effective monetisation strategies at multiple stages of the customer buying journey. According to 41% of respondents, discounts work best to drive monetisation, while 38% see product bundling as a top monetisation strategy. Both are also most commonly used: 35% of respondents say their company uses discounts to monetise assets and capabilities, and 33% use bundling. "Discounting and bundling work," says Mr Epstein, "but you must achieve a resonance with the customer on a personal, service level."

Customers are increasingly unwilling to make long-term, costly commitments or pay a hefty upfront price for a major asset. Having the ability to offer discrete, usage-based pricing is critical to drive effective monetisation. "Some of the smartest brands out there are using technology to break pricing down to the units. These slices and slivers were not possible in the past, but now they create new value for customers," says Lucas Watson, chief marketing and sales officer at Intuit.

Forced evolution: Innovating new business models to drive engagement, retention and monetisation

"Successful companies are constantly reinventing; they disrupt themselves before anyone else does it to them"

Lucas Watson, chief marketing and sales officer, Intuit

The challenges companies face in engaging customers and monetising company assets are a major focus for marketing teams worldwide. And they are tackled at the highest levels of the organisation—according to 71% of survey respondents, ownership of the company's monetisation strategy resides in the C-suite.

But the ultimate challenge is not merely one of marketing. The longer-term, strategic imperative is about finding ways to evolve the business model and monetise technologies, relationships and behaviours. "It's not that just the channels of communication are changing—the entire business model is changing," says Mr D'Arcy. "This is not just a marketing conversation—it's about business strategy and creating new business models," says Mr Cahill.

Three key elements are expected to characterise the new business models that will succeed in the on-demand economy: agility, connectivity and content.

Agility. The ability to innovate quickly and effectively is a key trait to survive and thrive in the on-demand, always-on economy. While marketing and communication have become more challenging, testing and innovating are easier—and absolutely necessary for success. "Experimenting, failing, trying new things are critical to survive in today's digitally connected world. We continuously run digital AB tests to optimise our platform and how we communicate with customers," says Mr D'Arcy. "We experiment with everything—even font sizes and colours—in order to find out what works best and drives the higher conversion," says Mr Epstein. "Successful companies are constantly reinventing," says Mr Watson. "They disrupt themselves before anyone else does it to them."

Connectivity. Being connected with customers and knowing where they are and what they need is another key capability for successful monetisation. Given the always-on nature of the customer relationship and their propensity for on-demand consumption, investing in connectivity to deliver frequent and relevant engagement is critical. Philips developed its novel Lumify solution—a portable ultrasound device that connects to the medical professional's own Android mobile device—as a way to transform what used to be a capital-intensive, infrequent customer transaction into a subscription-based, mobile-accessible app that allows doctors to serve patients wherever they are and whenever convenient. Lumify subscribers can order transducers, manage flexible subscriptions and access Philips' support, training and IT services through this new offering, all via a mobile app on their off-the-shelf smart device. "Offering a flexible subscription and a pay-per-use pricing model has been very important to the success of Lumify," says Mr Cahill.

Content. Connectivity solves the need for frequent interactions. But the final challenge is making them relevant. And that is all about content. "We are closer to the customer," says Mr Cahill, "but we must create a lot more content to stay engaged." One avenue for content-based engagement is to cultivate advocates and ambassadors—

Subscription-based pricing models

Subscription models that allow businesses and consumers to pay for anything from software to equipment usage to professional advice have become widely popular and are touted as one of the most prominent manifestations of the on-demand economy. In an earlier EIU research paper—*Supply on demand: Adapting to change in consumption and delivery models*—that examined the shifting attitudes among business executives towards new consumption and delivery models, 80% of respondents indicated that they see changes in how their customers access goods and services. Subscriptions and rental options emerged as the most appealing consumption models for individuals and, increasingly, for businesses. According to that survey data, 40% of companies were integrating subscription goods and services into their business model, and 38% of executives said they increasingly prefer to access goods and services via subscription rather than purchase them.

Subscription models will likely continue to grow in popularity as businesses strive to monetise their assets, capabilities and know-how. The extent of the offerings companies will transition to these new pricing models is not yet clear; however. In our current study, when asked about the proportion of their company's products and services they expect will be offered through subscription-based pricing models, 64% of respondents say they do not know (see **Figure 6**). Those who ventured an opinion saw an increasing percentage of offerings transitioning to subscription models with time, which is in line with broader research and expectations in the field.

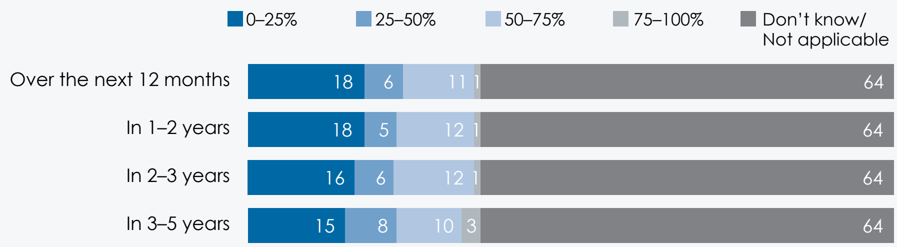
> "The flexibility we offer our customers with regard to starting and ending campaigns, setting campaign budgets and targeting their searches is critical to forging a long-term relationship and monetising our platform"
>
> Paul D'Arcy, SVP and CMO, Indeed

The Lumify offering by Philips illustrates the power of transforming a service that had previously depended on the deployment of capital-intensive fixed assets into a simple, affordable and flexible subscription that saves the user all the investment in building and maintaining the capability. In the end, flexibility is the key word—the ability to change, stop or upgrade a subscription is key to engaging the customer in the long run and monetising the relationship. "The flexibility we offer our customers with regard to starting and ending campaigns, setting campaign budgets and targeting their searches is critical to forging a long-term relationship and monetising our platform," says Paul D'Arcy, senior vice president and chief marketing officer at Indeed.

Figure 6

Over the following time periods, what proportion of your company's products and services do you expect will be offered through subscription-based pricing models? Choose one box in each row.

(% respondents)



Source: The Economist Intelligence Unit survey, December 2016

for Phillips, professional endorsements are critical to driving engagement with their medical customer base. Another avenue is to evolve from focusing on a narrow product to catering more holistically to a broader set of needs, including advice, education and other value-added content. "Everything is connected now, so we are shifting from 'product in a box' strategies to building new business models based on platforms of content and connectivity. We are going, for example, from selling mother and child products to helping customers manage the first 1,000 days of a child's life," says Mr Cahill.

Conclusion

As the world becomes even more interconnected and the deluge of instantly available data from devices all around us (and even within us) continues to overwhelm customers and companies, effective marketing and communication will become increasingly challenging. The tools that worked yesterday will likely not work as well tomorrow—they will become outdated (too slow, too long, too complicated) and be replaced by more effective tools that reach the customer better, engage them more effectively and monetise the engagement successfully. Staying on top of, and being equipped with, the tools and strategies that work will be critical to the success of corporate marketing and monetisation strategies.

But this rapidly changing environment will enable—and require—companies to develop new products and services and to evolve entire business models, to stay ahead, stay relevant and ultimately stay in business. It will require that all companies think of themselves as technology businesses and envisage their products and services in the form of software and platforms. In the longer run, companies need to make sure their business model continues to be relevant and effective, that they innovate and experiment, and they solve the important unsolved customer problems better than everyone else. “The best companies focus obsessively on growth, and treat customer delight as paramount,” says Mr Watson of Intuit. “Companies that accomplish this are constantly reinventing themselves.”

Those who are capable of innovating, being agile and continuously reinventing themselves will be successful in the long run. The rest will be replaced by nimbler, smarter market players. “It is an existential threat, and opportunity,” says Mr D’Arcy, “it’s hard to evolve, but those who are able to see beyond their current corporate assets and build their business on continuous innovation and experimentation will be the winners.”

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