



# The Boomerang Effect

How Market Dynamics Are Driving  
Customers Back to the Manufacturer

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### Executive Overview

A huge wave of change is crashing the shores of the customer landscape, propelled largely by an upheaval in market dynamics. It's no surprise that product distribution via the Internet and big box retailers has caused seismic shifts in the way consumers buy everything from MP3 players to garden tillers. But amidst these changes, there's one thing that product manufacturers missed: the upsurge of customers coming back to them for support.

Buyers have extended their purchasing power, using the Internet and their phone to research, buy, and ask follow-up questions about how to install, use, and troubleshoot their new purchases. Gone, for the most part, are the experts at the local mom-and-pop store who could tell you everything you needed to know about any product on the shelf. Now, customers

have a direct pipeline to the name on the label, and they expect the manufacturer to be ready to provide information whenever they want it.

These consumers have known and respected your brand; now they are raising the stakes of your relationship with them. Are you prepared to take advantage of this new dynamic?

High-performing companies are already doing so. They have trained contact center personnel to treat the returning customer as a valuable asset, not as a problem that should be handed off to a channel partner. They have redesigned Internet, contact center and email operations, carefully aligning them for consistency and turning them into positive experiences for building customer relationships. In short, the returning customer presents a huge opportunity, both from a loyalty and a revenue standpoint.

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### White Paper in Brief

#### *This paper will discuss:*

The challenges of the new customer dynamic and how multichannel manufacturers have evolved to embrace the new wave.

#### *This paper will examine:*

How changing market conditions have required manufacturers to focus on serving end consumers. This presents an opportunity for building customer relationships and long-term value.

#### *You'll find:*

Four best practices on how to turn these challenges into opportunities:

1. Leverage the Data – But Don't Abuse It
2. Match the Online Channel to the Need
3. Align Across Channels – Both Externally and Internally
4. Innovate from a Customer Perspective

## The Boomerang Effect

It's hard to believe that just a decade ago, product manufacturers had little direct interaction with the customers who were actually purchasing and using their goods. Manufacturers sat at the top of a supply chain in which products were distributed through retailers (for consumer products) or resellers (for B2B products), which in turn provided the sales and support functions for the buyers. Sure, manufacturers made significant marketing investments to target groups of demographic-defined customers and prospects through advertising and other promotions, but they never really had to deal directly with their end users or get to know them beyond the basics: age, gender, and location.

The Internet changed all that. It's not just that people started buying more products online (retail e-commerce sales surged from \$5.3 billion in the fourth quarter of 1999 to \$33.9 billion in the fourth quarter of 2006)<sup>i</sup>, but they began relying far more heavily on the Internet for presale research and post-sale support. (Shoppers take an average of 34 hours and 19 minutes from the time they first visit an e-commerce site to when they finally make a purchase, according to research by ScanAlert.)<sup>ii</sup> These behavioral shifts created an unanticipated boomerang effect that hurtled customers away from the retailers and back to the manufacturers by way of the web site or their call center.

Other forces have also played a role in this shift, primarily the rise of big-box retailers that leveraged large inventories and low prices to drive smaller specialty stores to the fringes of the marketplace. As those mom-and-pop stores were marginalized, so was the product expertise that these specialty shops provided to their customers. Armed with post-sale questions and support needs that the retailers could no longer answer, consumers migrated to the web, carrying some high expectations along with them. They naturally gravitated to the sites owned by the manufacturer – after all, since their name was on the product, they must have the most expertise.

“This is a totally new dynamic that did not exist five or 10 years ago,” says Jason Mittelstaedt, vice

president of marketing, RightNow Technologies. “Consumers now assume they have access to any brand they want, regardless of where they purchased the product.”

Unfortunately, manufacturers were ill prepared for this surge. Companies that had been in business for decades with little or no interaction with end customers began receiving emails and phone calls from consumers – and they had no process or infrastructure in place to deal with it. They had little

### Then and Now: A Tale of Two Value Chains

Then	Now
Manufacturers sold through retailers or resellers, which sold to end customers	Many manufacturers have multi-channel strategies that combine direct and indirect sales
Manufacturers used mass marketing to raise brand awareness, but rarely interacted directly with end customers	Customers have a direct pipeline to brand owners through the Internet
Specialty retailers had the expertise needed to provide post-sale support, minimizing the need for customers to contact the manufacturer directly	Frustrated with the lack of support they receive from big-box and internet retailers, consumers are turning back to the brand owner for their post-sale service

Source: Peppers & Rogers Group

opportunity to plan for this shift – or influence it. It just happened, and most of them were caught completely off guard – which explains why they made so many mistakes responding to it.

Some, initially at least, chose to do nothing. Driven by fear of conflict with their channel partners, cultural inertia or an infrastructure that was not equipped to handle high volumes of web site or call center traffic, many manufacturers hesitated to embrace the new wave they saw crashing toward them. Unfortunately, consumers didn't accept their attempts to maintain the status quo. They kept clicking, and kept calling, and when they didn't get the answers they wanted, they went to a competitor. Inaction quickly became an untenable option.

The manufacturers that did dip their toes into the suddenly churning waters tended to emphasize

sales over support. Some threw up storefronts and tried various means to work through the conflict they anticipated with their channel partners. Others turned their web sites into promotional vehicles to drive sales through the channel. They began collecting email addresses and other customer information, but they never gave much back in return to the consumers. They ignored what their customers were really seeking: a quality experience when they were considering a purchase, and an equally positive encounter when they had post-sale questions.

“The whole point of this movement is that the consumer cares less about where they buy than where and how they get support and service,” says Mittelstaedt. The retailers already know this: In a Carlson Marketing consumer survey, 90 percent of the respondents said that good customer service was an important attribute in choosing one retailer over another. More than half said they believed that any number of retailers could serve as a good alternative to their primary retailer.<sup>iii</sup>

Manufacturers were overlooking what should have been obvious: that three-quarters of their interactions with consumers were coming through support channels. These consumers might have a problem with a product they just purchased, or they may just be looking for more information. They didn't necessarily want to buy anything else, and they certainly didn't want to be pressured to do so.

“When manufacturers get into the direct business, they often try to emulate the sell-it-now attitude that retailers have,” says Don Peppers, founding partner, Peppers & Rogers Group. “Customers see this as oversolicitation. They don't want too many reminders that they can upgrade their car or their camera.”

A customer's experience through a support channel can have tremendous impact on the brand. Consider one manufacturer, a maker of high-end consumer electronics products that it had traditionally sold through specialty stores, where associates were skilled in helping consumers with their installation and usage questions. When the manufacturer expanded its distribution into big-box retailers, the expertise did not follow. Unable to get the answers they sought from the retailers, customers went back to the manufacturer with their support queries – and quickly overloaded the vendor. The company's call center was so overwhelmed that during peak times nearly a third of its support calls went completely unanswered. Its reputation took a significant hit.

“Manufacturers have traditionally been arms length from consumers,” says Danielle Wanderer, director of industry and partner solutions, RightNow Technologies. “Now that they are letting consumers in – through the website or the call center – the consumers are pretty demanding about how they want to be treated.”

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– Jason Mittelstaedt,  
Vice President of Marketing,  
Right Now Technologies

## Whither the Channel?

As manufacturers become more involved in servicing – and occasionally selling to – end customers, how is the role of their channel partners changing? If nothing else, the changes have been a major wake-up call to retailers and resellers to improve the quality of their own customer service, both in stores and via the Internet.

“Increasingly, the channel partners are in a vice,” says Don Peppers, founding partner, Peppers & Rogers Group. “They have to figure out the value they are adding, beyond holding the product for pickup.”

Faced with the threat of disintermediation at the hands of the manufacturers, channel partners are beginning to move up the value chain to deliver more services and a better customer experience. In the B2B world, that may

take the form of faster delivery times, more onsite service or specialty services such as equipment calibration. In the B2C world, it means making it easier for customers to purchase and receive their products – online or in the store – and to improve the expertise of their sales associates.

Look for more collaboration and sharing of information between manufacturers and their partners. Vendors are exploring ways to syndicate the content they publish on their web sites to their channel partners. Providing uniform access to a knowledgebase, for example, would enable retailers to offer a consistent set of information to customers. That could go a long way toward an end-to-end experience that is consistent – and positive – for customers throughout the value chain.

## Best Practices: The New Dynamic

Ask a consumer if she wants to be sold to and the answer is invariably no. Ask her if she wants to be marketed to, and you'll probably get the same response. But ask her if she wants to be serviced and you're likely to elicit quite a different response. This is how manufacturers must think of their web site and call center operations – as a place for servicing the consumer before, during and after the sale of one of your products.

“For the first time, you have an opportunity to interact with an end consumer,” says Mittelstaedt. “If you make a connection with them, they'll come back to you.”

There's a lot at stake. Research from Yahoo! and ChannelForce found that a vast majority of consumers shopping for consumer electronics researched products online prior to making their in-store purchase. When researching digital cameras and televisions online, 68% used the manufacturer's web site as a source of information – second only to retail web sites (73%).<sup>iv</sup> Those results signal an untapped opportunity to influence potential customers to purchase your products – and promote your expertise to others. Here are four best practices to help you get started down that path.

### 1. Leverage the Data – But Don't Abuse It

Direct relationships provide unfiltered and continuous feedback about your company and the direction your customers want you to take. Think it's too expensive to implement the systems needed to capture that feedback? Consider the alternatives. “Companies spend millions of dollars on focus groups and syndicated market research,” says Mittelstaedt. “If you have a self-service component on your web site, that's daily market research of millions of consumers. It can be one of the best strategic drivers of your business.”

No longer reliant on their channel partners to supply data about who is buying their products, manufacturers should look at the rich insights they're collecting from online and call center interactions as an

opportunity to get to know their customers and serve them more effectively. The better you serve them, the more they will reward you with loyalty and revenue. Or, as Peppers notes, “The more friction you take out of the transaction, the closer you become to the customer.”

Manufacturers have an opportunity to mine the data they are collecting from web visitors and cus-

### Where Consumers Find Information

Preferred online resources for researching digital cameras and televisions based on interviews of 1,100 consumers at Best Buy, Circuit City, Fry's and Target stores between February and March 2007.



Source: Yahoo!/ChannelForce

tommer support queries to create personalized outreach programs, via email, direct mail, or even outbound calling. As organizations develop new processes for managing and measuring the relationships they have with online customers, they're able to leverage those efforts to drive more effective marketing campaigns.

iRobot—makers of the Roomba Vacuuming Robots—uses Web self-service tools to automatically answer queries of more than 97 percent of the company's half-million web site visitors every month. For more complex queries that require phone assistance, contact center personnel have a complete history of every customer's service interactions. These tools have reduced incoming phone volume by 30 percent and call abandonment rates by 18 percent. In addition, by capturing customer data when someone registers a product or contacts technical support, iRobot has been able to open a direct dialog with customers, sending out upwards of 20 unique mailings, totaling about 1 million messages, every month. These mailings are helping to

drive revenue and attract first-time buyers through targeted promotions based on the particular iRobot product the recipient owns or has indicated an interest in.

While it is strategically important to capture as much data as possible, smart companies have learned not to abuse the information customers are giving them. In other words, don't overdo the promotional offers – and never communicate with customers about topics they have not expressly shown an interest in. "They should apply the same disciplines they have for developing brand equity to the aesthetics of the customer relationship," says Peppers. "Think about how you would like to be treated as the customer – that's the right attitude to take."

## 2. Match the Online Channel to the Need

Manufacturers need to abandon their traditional view of the call center as a cost center and acknowledge that a better service experience will be rewarded by customers – in both tangible and intangible ways. One study showed that 99% of U.S. adults said a positive customer service experience make them likely to recommend that company to a friend or colleague, and 85% said that if they consistently received excellent customer service from a company, they would be likely to increase their business with that company.<sup>v</sup>

That service experience can take many forms – from automated voice-response systems to speaking with a customer-service representative to navigating an online knowledgebase. Things like web self-service are critical components to delivering a positive customer experience, managing the cost to serve those customers, and freeing up call center agents to focus on the customers who have more complex issues. The key to choosing the right mix is to develop a deep understanding of your customers' behavior and buying habits – beyond the actual purchase of a product – to determine how they prefer to interact with you. Adding headcount in your call center, for example, may be unwise not only because it

cuts into your margins, but because 65% of your customer queries can be more efficiently handled by a self-service element. If customers have a simple question regarding a warranty – and they prefer a simple search to find the answer – why make them call customer support?

It's an old refrain, but it's one that manufacturers have not done a good job reciting: Treat different customers differently. This principle is an essential condition of growing customer relationships on a one to one basis. Relationships are developed with individuals having specific needs – not market segments – and it is therefore necessary to identify each customer uniquely.

One-way broadcasts must be replaced with meaningful conversations and dialog, which requires knowledge by each party of the other. That's why customer service operations must be flexible. They cannot rely on scripted and static processes. Information provided to customers, whether through phone support or your web site, must be adaptable based on customers' questions and actions. The keywords here: dynamic (meaning information can be filtered and changed on the fly), relevant, and tailored.

## 3. Align Across Channels – Both Externally and Internally

The fear that the Internet (and the direct sales model that sprung from it) would disintermediate smaller shops has, to this point at least, been unfounded. E-commerce transactions still account for only 3% of all retail sales. At the same time, however, retail giant Wal-Mart is pushing aggressively into new segments such as name-brand consumer electronics, taking share away from specialty stores – and leaving a big customer service void for those products. The challenge in this new multichannel environment for manufacturers and their partners is to recalibrate their roles and create a consistent experience for customers, regardless of how those customers are buying a product or where they are going for support.

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Think of all the options that manufacturers and retailers must now take into account for the supply chain: A customer researches a product online on both the manufacturer's and retailer's sites, then goes into the store to purchase the item. Or he buys the product online and picks it up in the store. Or has it shipped directly. He registers the product online with the manufacturer and revisits that site frequently for installation tips and technical support. Not too many manufacturers can claim that each one of those touch points offers a seamless experience that accurately reflects the brand promise.

But that is exactly what manufacturers must strive for. "The brand owner has a vested interest that the customer experience lives up to the brand promise across the entire distribution system," says Peppers. Automakers, restaurant chains and other franchise-oriented businesses have dealt with this issue for years, but the challenge has become more acute now that the manufacturer is either selling the same products as its channel partners or providing post-sale online support.

Manufacturers must continue to work with their channel partners to refine the consumer experience across channels (see "Whither the Channel"). Technology can help with the "connectedness," leveraging things like RFID to automate information-sharing between retailers and manufacturers. Consider a simple product registration. In the current state, a consumer purchases a new digital camera from Best Buy, brings it home and logs onto the manufacturer's site to register the product. He must input the serial number, where and when he bought it, and whatever personal information he wishes to disclose – all information that the retailer already possesses. Now, imagine a future state, in which an RFID chip in the camera can automatically transmit that data to the vendor's web site when the customer logs in. A form is populated with the relevant information, and the interaction is completed. Which experience is more positive for the customer?

As manufacturers seek better alignment with their external partners, they must also take steps to

ensure consistency across their internal groups. Consumers don't distinguish among sales, marketing, or operations. So companies must make sure they don't funnel customers off to arbitrary organizational silos. No one enjoys being told they have to call another department to have their question answered or their problem resolved.

#### 4. Innovate from a Customer Perspective

Manufacturers in many industries have a long way to go to build a high level of trust with their end customers. In a recent survey by Prospectiv, for example, 75 percent of respondents said they view the Internet as their most trusted resource for information about illness and pharmaceutical products – but only 4% said they perform that research on pharmaceutical manufacturers' web sites.<sup>vi</sup>

Customers tend to think that the content on a manufacturer's web site is more marketing collateral than unbiased information about the benefits (and drawbacks) of a product they are researching. In this era of empowered customers, companies might benefit from opening up their sites to user-generated opinions and product reviews. "There's a great opportunity for manufacturers to serve as a fair-minded, objective source for product information and reviews," says Peppers.

The key for manufacturers is to understand what makes the empowered consumer tick and continue to develop innovative ways to serve those needs. That may mean adding a live chat feature to your web site, or as mentioned earlier opening your web site to third-party reviews or comments. The more you bring consumers into your community, the more they will feel like they have a say in defining your brand, and the more likely they are to share their positive experiences with their family, friends and colleagues.

"If you're focused on keeping every consumer happy that you want to keep happy, you get a customer who promotes you, spends more with you, and stays with you," says Peppers. "It's a more symbiotic relationship."

"The brand owner has a vested interest that the customer experience lives up to the brand promise across the entire distribution system."

– Don Peppers,  
Founding Partner,  
Peppers & Rogers  
Group

## Conclusion: Tangible Intangibles

Manufacturers that invest in customer experience initiatives have seen the payoffs from their efforts in ways that satisfy both marketers and finance. Marketers are divining new levels of insights and value from their newfound customer connections and leveraging those insights to develop true one-to-

one relationships. Increasingly engaged customers are spending more on your products and extending their stay with you. A multichannel approach to customer service — based on customer needs — will move the needle without driving up costs. That's a formula any manufacturer can embrace. ■

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### Footnotes

- <sup>i</sup> U.S. Commerce Department, Quarterly Retail E-Commerce Sales, Q4 2006 and Q1 2001  
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<http://www.scanalert.com/pdf/ScanAlert-2007WindowShoppingReport.pdf>
- <sup>iii</sup> Carlson Marketing and Peppers & Rogers Group, "Getting It Right in Retail," 2007
- <sup>iv</sup> Yahoo! and ChannelForce, "Consumers Who Search Online for Electronics Spend More in Stores," July 2007  
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[http://home.businesswire.com/portal/site/google/index.jsp?ndmViewId=news\\_view&newsId=20070724005070&newsLang=en](http://home.businesswire.com/portal/site/google/index.jsp?ndmViewId=news_view&newsId=20070724005070&newsLang=en)

#### RightNow Technologies

RightNow (NASDAQ: RNOW) delivers the high-impact technology solutions and services organizations need to cost-efficiently deliver a consistently superior customer experience across their frontline service, sales and marketing touch-points. Approximately 1,800 corporations and government agencies worldwide depend on RightNow to achieve their strategic objectives and better meet the needs of those they serve. RightNow is headquartered in Bozeman, Montana. For more information, please visit: [www.rightnow.com](http://www.rightnow.com)

#### Peppers & Rogers Group

Peppers & Rogers Group is a management consulting firm, recognized as the world's leading authority on customer-based business strategy. Founded in 1993 by Don Peppers and Martha Rogers Ph.D., the firm is dedicated to helping companies grow the value of their business by growing the value of their customer base. Our goal is to develop and execute strategies that create immediate return on investment and long-term customer value. Peppers & Rogers Group maintains a significant voice in the marketplace with its 1to1 Media properties. Led by *1to1 Magazine*, these print, electronic and custom publications reach more than 250,000 decision-makers. Peppers & Rogers Group is a division of Carlson Marketing Worldwide, and is headquartered in Norwalk, Conn. More information is available at: [www.1to1.com](http://www.1to1.com)