

Chapter One

What are Addicted Customers?

addicted customer (ə-dik'tid kus't ə m-ēr)

n. An addicted customer: 1. is emotionally and psychologically engaged in the customer experience surrounding a product. 2. derives gratification from his or her involvement in a customer experience. 3. willingly scrimps elsewhere to be able to splurge on desired customer experiences. 4. seeks a relationship with a company because its product enables an emotionally gratifying experience and an authentic relationship.

Over recent years there has been a dramatic shift in what customers value. But, this is not what most businesses are delivering. There is a huge and growing disconnection and it is costing businesses millions in profits and, in some cases, it sabotages their very survival.

Globalization, rapid innovation, and hyper-competition have pushed many businesses into commodity tactics that emphasize prices and incentives for short-term gains. These practices are neither sustainable nor profitable.¹

Customers, on the other hand, are confronted with abundance, overwhelming choice, the uncertainty of rapid change, and increasing time pressures. A marketplace with a huge range of choices in products and vendors gives customers the upper hand in the commodity game. At the same time growing distrust have increased customers' stress levels and is creating a sense of alienation. Combined, these factors have caused a fundamental shift in what customers value and will reward with loyalty. Starbucks has been a worldwide success, not

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because of coffee *per se*. That is available from many other sources and often at a much lower price. Even people in low income neighborhoods splurge at Starbucks because it offers experiences that are meaningful and of value.

For most people, fulfilling basic needs is easy to accomplish. Increasingly, customers value opportunities to reduce stress in their lives; moreover, they want to become engaged in meaningful experiences and to become immersed in authentic relationships. When a business offers an emotionally and psychologically fulfilling experience, customers will scrimp elsewhere to enable them to splurge on the desired offering. They do so because of the total experience, not just the product.

Yet, most businesses are focused on selling “things.” They have a focus on sales and marketshare and compete by exceeding competitors’ offers. The upshot is that this “competitiveness” encourages customers to shop on price and to shop around. This works against loyalty. Loyalty comes from delivering what customers value, something they find meaningful, not just utilitarian.

This is a challenging situation that requires new strategies to deliver the experiential value customers seek. The foundation of these strategies must be based on the psychology underlying the behavior of today’s customers. It is important to understand how they arrive at decisions, and how their decisions are tempered by current marketplace dynamics and the demands of contemporary lifestyles. Creating addicted customers is a metaphor for the process of delivering what today’s customers value and engaging them in customer experiences that are emotionally and psychologically gratifying. These are the types of experiences that stimulate desire and as a consequence, lead to committed customer relationships. This is “*how to get them hooked on your company.*”

The Two Distinct Buying Personalities

Customers have two distinct buying personalities: indifferent and engaged. The personality that surfaces during particular buying decisions depends on the type of value customers seek. Most businesses

are optimized to sell to the indifferent personality. In this buying mindset, customers are focused on practical features such as price and convenience. As a consequence, customers' relationships with sellers are often adversarial. Customers are interested in acquiring products to fulfill well-defined, basic needs. They want means-to-an-end and they want them at the best combination of low price and convenience. They have tasks to complete and there are minimal standards of functionality, but beyond that, it is price and convenience. In this mindset, customers are emotionally indifferent to the products or the tasks those products serve. Batteries are bought so flashlights work. In these situations customers become indifferent to the purchase process as well as indifferent to the products. Or they become adversarial—they try to get as much as they can for the lowest price. They want the purchase process to be a non-experience. They want to extract the greatest tangible value at the lowest possible price. There is no inherent basis for loyalty.

The engaged personality emerges when customers are emotionally and psychologically engaged in the buying experience, and when this engagement is motivated by desire. Certainly, “engaged” customers may buy tangible goods or services that serve utilitarian purposes. However, customers increasingly value the shopping experience for its own sake, and want to be immersed in the emotional and psychological consequences of the experience surrounding a product. Companies that support them in this quest strengthen the relationships and this ultimately translates to customers with high lifetime value—in short, those companies accrue customer equity.

The following “tale of two purchases” illustrates the distinction between the two primary buying personalities and their impact on the ability of businesses to create addicted customers.²

The Quest to Buy New Tires

I have to get new tires for my car. This is a real pain, because it means I have to waste most of a day on something I don't really care that much about. I want safe tires, of course, but beyond that—well, tires are tires.

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So I'm already in a negative mood. Where to start? I guess I'd better find out the size and make of tires on the car now. Next, I'll look at the tire ads in the newspaper and check out the Yellow Pages.

This is not going to be a simple choice. There are many brands—Goodyear, BF Goodrich, Michelin, Bridgestone, Yokohama, Toyo, to name a few. Each brand offers several different styles of tires. One ad offers a deal on Yokohama tires for my Infiniti G35—\$835. Bridgestone tires came with the car; are Yokohama tires OK?

What's more, there are myriad tire shops—how can I check them all? I call a nearby tire store; they could put Bridgestone tires on the car for \$980. Boy, this is one time owning a “performance car” is not so great! I tell him I can save \$145 if I buy the Yokohama tires. His response is: “Those are OK, but they are only rated for 40,000 miles. The Bridgestones are rated for 50,000 miles, and will give you a quieter ride.”

“But I can save \$145.”

“Sir, did the other price include balancing, new stems, the tire disposal fee, and a lifetime road hazard guarantee?”

This was becoming complicated. I think to myself, “I don't know. All I want is a new set of tires with minimum hassle.”

“We can put you in the Bridgestones today for \$940 or the Yokohamas for \$880.”

With more than a little frustration, I ask, “Can you put them on this morning?”

“Certainly.”

I still don't know what kind of deal I could get at other tire stores, and I still don't know if Yokohama tires are inferior to Bridgestones. But I don't want to waste any more time on tires.

“Give me another \$20 off the Bridgestones and I will be there in 20 minutes,” I say.

“See you in 20 minutes,” he says.

The truth is, the purchase was about getting a low price and convenience, with a sense that the tires were reliable, without investing a lot of time and energy in the process. I am still not sure I got the best deal, but at least I won't have to buy tires for another couple of years.

The Process of Buying a New Bicycle

For the past few months, I've been riding my old bike to get some exercise while I take it easy on my knees. I'm really enjoying it—no sweaty gym, nice scenery, fresh air. Now it's time to really get into it—buy a new bike, maybe even a helmet. My 15-year-old bicycle sure doesn't look much like the one Lance Armstrong was riding in the Tour de France.

I get on the Internet to do a little research, narrow down the type of models, and get a bead on a reasonable price. Wow, the number of options is incredible—mountain bikes, road bikes, racing bikes, touring bikes, cruisers, hybrids. Within each category, the variations are overwhelming, and the prices range from \$100 to \$10,000. There are decisions to be made about frames, gears, seats, brakes, tires, shifters, handlebars. The Internet gives me a lot of information, but I have to supply my own answers. Even the online reviews seem to be written for an experienced rider. Hey! I'm going to get into this cycling thing and I want help in making the right decisions for me, a somewhat inexperienced rider. I need help; no, I want help!

I head to a nearby bike shop and am astounded by row after row of bikes. I wander around, trying to make some sense out of the choices. A slightly distant clerk asks if he can help me.

“Yes,” I say, “I would like to buy a bicycle.” His response, “What type of bicycle do you want, and what's your budget?” I answer, “I don't really know. I plan to go on long rides and hit a few hills.” His response is, “You probably want a road bike. They are right over there, so why don't you have a look at them and I'll get back to you in a few minutes?”

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I think, “Look at what? The colors?” I want to get a bike that will allow me to really get into cycling. How do I decide on brand, gears, and all that stuff? How much do I have to spend to get a bike that will meet my needs? How will I know when an upgrade is worth it? I want to talk to somebody who is into cycling, shares my budding passion, and will help me feel like I am becoming a cyclist, and not just a bike rider. Obviously, this guy doesn’t fill the bill.

Several stores later, I meet Nick. He hears my story and, with a smile on his face, enthusiastically assures me that he will help me put together the right bike. He asks me where I usually ride and what aspects of the ride I enjoy and what I don’t like. I tell him about the chafing I got in the groin. His response is, “Let’s get you a bike configured and adjusted to you, and then I’ll get you outfitted in the right cycling clothes so the ride is most comfortable.”

He picks a medium-price road bike and explains what he likes about the particular brand and model, why certain features would be important to me, why I will probably want to upgrade others, and what accessories I should have. Hey, I’m stoked! I am configuring a bike just for me and learning why it fits me to a T. Nick points out that once people like me purchase a good cycle, they often like to include more hills. Then he recommends a couple of good rides to try out, and gives me information on a friendly local cycling club I might want to join. He also mentions that if I really got into the hills, I will probably want to upgrade my gears. The configuration he recommends would suit me today but I also get a sense of how this might change in the future. I like that explanation so much, I buy the bike! I spent more than I had planned, but it’s worth it. Now I’m eager to get on the road.

As I check out my new gem, Nick explains that the bike comes with a year of free service. He asks me to stop by and let him know how things are working out, and to come by in a couple weeks since the wires would stretch and need adjustment. Wow! I was already feeling like I was a cyclist, with a knowledgeable pit crew and coach (Nick). My next stop was to meet up with my riding buddy, show him my

great new wheels, and tell him about Nick. This purchase is all about the total experience I am having around my new bike.

The Moral of the Stories

What is the significance of these two shopping stories? What do they tell us about the new business environment and how to compete successfully in an age of abundance, information overload, and too many choices for the consumer? While there will always be companies competing on price, it is increasingly difficult to compete and remain profitable—customers feel completely free to switch in a moment from one product or service to another.

A growing number of companies, however, have discovered that there is an alternative. By enabling customers to have meaningful experiences, these companies build effective long-term relationships that lead to addicted customers and sustainable profits and growth.

For many years companies have been told that customers differ and that approaches should vary based on the customers' value to the company. But little has been done to describe how customers themselves see value. In today's competitive marketplace, where customers are increasingly "in the driver's seat," it seems prudent to understand what customers desire. In fact, customers are signaling that they are less interested in "things" and more interested in the experiences "things" enable. The two stories above highlight the fact that customers' desires for meaningful experiences are what differentiate them. These desires will vary among customers but, as the stories illustrate, they also vary within each customer. Understanding this is critical. Recent research, though, clearly indicates that the majority of business leaders focus on products and efficiency and are not listening to customers.³

The more profitable, engaged buying personality emerges when customers are emotionally and psychologically involved in the buying experience, and when this engagement is motivated by desire.

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People have varying levels of interest and involvement in the purchases they make. Many purchases are viewed as chores, and customers seek to minimize the cost, time, and effort involved. They make no distinction among products and simply shop where it is easiest and cheapest. They take the opposite approach for purchases related to activities in which they are highly interested. They want to be involved, they want to spend time, and they want to understand the differences in products from various companies. Emotional and psychological involvement is at least as important as the product itself, and customers are looking for companies that can provide this.

Yet, a volatile business environment and frenetic lifestyles have made it more difficult to engage in meaningful shopping experiences. People have less time and face competing demands. At the same time, businesses focus on efficiency, and actively depersonalize the shopping experience. As a result, most customers see the majority of their purchases as commodities—buy on price and convenience and minimize the total experience.

The buying experience takes place on a continuum from a completely indifferent buyer to a fully engaged consumer. The indifferent buyer has a simple goal: buy the product as quickly and cheaply as possible in order to move on to something more meaningful. He or she sees purchase options as essentially equivalent and pays little attention to the companies offering them. As a result, the purchase is based on a combination of price and convenience that produces the highest value for the customer. For example, people waste as little money, time, and effort as possible to get gas for their cars. That is why you will see a long line at one gas station and nobody across the street where gas is selling for a few cents more. The brand is irrelevant. It is virtually impossible to permanently capture such indifferent customers because their next purchase goes to the lowest bidder—the company with the best combination of price and convenience.

Engaged customers are totally immersed in the activities and experiences related to the products. They want to know as much as possible about

the products and will passionately devote time and effort to become more expert. They see the products, the company, and the experiences as one, and are willing to pay premium prices if necessary. They are or become dedicated, long-term, loyal customers. They enjoy spending money on the products because of their emotional value. They are addicted customers.

Addicted, fully engaged customers are highly profitable with high lifetime value, and are extremely effective advocates of companies that serve them well. Starbucks was able to avoid traditional advertising for years, for example, because their engaged customers were such effective evangelists. There is no more powerful advertising than word-of-mouth. And, as recent research indicates, recommendations of peers is near the top in credibility.⁴

The greater the customer engagement, the more valuable the customer is to the company. As customers increase their focus on the experiences, they are willing to pay more for the products.⁵ What's more, when they find a company that provides engaging experiences, they are increasingly likely to return to that company. The fast food industry, not known for its meaningful experiences, provides an interesting example. When customers perceived employees to be engaged, they were 6 times more likely to come back. And in the banking industry, they were 20 times more likely to return.⁶ This highlights another critical point. It is possible to move customers up the engagement ladder and increase their value to the company. Because people like to have meaningful experiences, they are likely to respond positively when given opportunities to increase their level of involvement.

Indifferent Customers or Engaged Customers

Companies can choose to compete for indifferent customers, but must recognize that efficiency is the key and that there will be constant price wars. Long-term success will require the ability to sustain efficiencies. Only a few companies in an industry can accomplish this, but even they are under the constant threat that competitors will find new ways to

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reduce costs. It is an ongoing battle. Even Wal-Mart, the paragon of efficiency and price competition, felt the effects of cutthroat competition when it failed to offer discounts early enough in the 2004 Christmas season, and saw sales drop.

There is a better option for most companies. They would be well advised to focus on cultivating engaged customers. In this mindset customers want to become involved in long-term relationships. Additionally, they will be less sensitive to price, and will be more resistant to competitive offers. Successfully engaging customers build customer equity, the wealth-building potential based on customers' relationships with the company.

Identifying and attracting engaged customers and increasing their level of engagement involves a completely different approach from traditional business models. The focus must shift from a concern for sales and cost-efficiency to a concern for increasing the lifetime value of customers. Companies must spend money to effectively stimulate customer involvement and recognize it is better to have fewer customers who are engaged and loyal.

Engaged employees are a powerful mechanism for creating engaged customers, and conversely, disengaged employees alienate customers. Yet most companies have human resources strategies that work against employee engagement. A new HR approach is needed. Companies must be willing to invest in their employee's engagement. They must adopt hiring, training, nurturing, and empowering strategies that will make employees passionate about their work. Studies by Gallup have found that, in the average organization, 75 percent of employees are not fully engaged.⁷ Gallup estimates, in fact, that unengaged employees cost American business up to \$355 billion a year.⁸

Creating an environment to support engaged employees, which in turn creates engaged customers, means changing organizational structure and design. Traditional management focus is on managing and controlling employees which minimizes opportunities for involvement. Companies must loosen constraints and give employees the freedom to become engaged in their jobs and with customers.

Is it worth the effort? Indeed. A successful customer and employee engagement strategy has long-term viability because each of the parties—customers, employees, and company—achieves its goal. Trust becomes key—between employee and company, between employee and customer, and between customer and company. Ultimately, it is trust that sustains relationships, enables them to grow and allows all parties to win.

Building this new business model and achieving customer equity is a transformational process, and this transformation is a journey. Yet for most companies it is a journey into the unknown.

The concept of addicted customers is that desire increases when the experience surrounding a product has positive emotional and psychological consequences. Once again it is not the product itself that is of value to the engaged customer; it is the engaging experience surrounding the product. This experience, in turn, accrues relationship value or customer equity to the company.

The emotional consequence can be momentary, such as when a clerk's genuine smile elicits a reciprocal smile from the customer. Or, it can have a more lasting impact, such as when the customer gains a greater sense of competence and control. In either case, an emotional connection develops and becomes the foundation of the desire to repeat the experience.

Rekindling or igniting desire is the antidote to indifference and apathy. Both are defensive reactions to the frustration, anxiety, and stress that occur when a person is pushed out of his or her psychological comfort zone. The accelerating rate of change, increased complexity, and time pressures of modern life are causing this reaction, and it is a pervasive societal problem.⁹ Rekindling of desire is important to customers, because desire is essential to mental well-being and happiness.

Addicted customers are those who derive emotional and psychological gratification from experiences. This occurs from overcoming negative emotions and regaining a sense of control over change and complexity. This returns them to psychological comfort zones.

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Getting the customers engaged is the key to ensuring that their experiences lead to these powerful emotions. Unengaged customers want a non-emotional non-experience. These indifferent customers will not exhibit preferences or loyalty. At best, they are inertial customers who will stay with a vendor until someone else offers a more attractive mix of convenience or price.

If a company's customer base is largely unengaged, the company is at risk. Customers who complain are actually preferable to passive or disengaged customers. Their complaints signal that the experiences have value or meaning but just aren't living up to expectations. The complaints tell the vendor how to shore up its value proposition.

Engaging customers goes far beyond delighting them or serving up sensory pleasure. Customers do enjoy sensory pleasure, which can spark deeper involvement. However, sensory experience quickly loses value and is not a source of sustainable competitive differentiation. In contrast, gratifying experiences that come from personal involvement lead to a positive psychological "catch-22." Gratification leads to enhanced desire, and this leads to even greater involvement. To cultivate this powerful emotional connection in customers, the appropriate psychological stages must be set. Then customers willingly, even eagerly, become engaged.

The dynamics of contemporary life make emotional gratification and psychological fulfillment more important than ever. But these same dynamics make them more difficult than ever to achieve.

- Consumers live in a world of abundance and choice, where vendors aggressively compete with short-term tactics that effectively "buy the customer's business." As a consequence, businesses are struggling to sustain profits and growth. Customers might win materially, but they lose psychologically.
- In spite of material well-being, customers in the industrialized world are less happy, are more distrustful than ever, and are experiencing a diminished sense of belonging, even alienation.¹⁰

- While abundance has enabled people to move beyond needs fulfillment, change and uncertainty pushes them out of their psychological comfort zones. Avoidance behaviors work in the short-term, but ultimately undermine an individual's ability to adapt and feel in control. The result is a more passive and less involved approach to life.
- Abundance and choice make it easy for most of today's customers to satisfy their basic needs, and they do so with increasing indifference. However, indifference and apathy do not indicate a state of emotional well-being.
- Customers increasingly seek experiences that are emotionally and psychologically gratifying, meaningful, and contribute to authentic happiness.¹¹ This pursuit of happiness may take place in only selected aspects of their lives. Indifference in other areas gives them the time, resources and psychic energy to become involved in things that matter. Along the way, the products may fulfill needs, but it is the experiential value that drives desire and commitment.

The combination of these forces has four impacts on customers. First, the stress of daily life is higher. Second, value in customers' minds is rapidly shifting from utility, which is readily available, to emotional gratification, which is harder to come by. Third, people want authentic relationships with the companies and employees with whom they do business. Four, trust is a critical component of an authentic relationship, it is a key factor in simplifying life and an increasingly complex world.

By deliberately and systematically helping customers face these challenges, companies actively encourage win-win relationships. By doing so, they are cultivating addicted customers.

About the Author



John I. Todor, Ph.D., uniquely combines two perspectives for developing win-win relationships between companies and their customers. During his tenure as a professor and research scientist at the University of Michigan he investigated how people learn and make decisions. As a business owner, executive and consultant he has faced the realities of turning a profit. *Addicted Customers* is the outgrowth of over fifteen years of integrating the two perspectives into a methodology that delivers the experiences customers value along with sustainable profits and growth for the companies.

He owned and managed a marketing firm with clients that included General Motors, Ford Motor Company and Domino's Pizza, held executive positions with technology companies, and worked as a CRM analyst. As the Managing Partner of The Whetstone Edge, LLC (www.TheWhetstoneEdge.com), he helps companies implement business strategies that strengthen customer relationships and profitability. Clients range from small entrepreneurial ventures to multi-nationals like Hewlett-Packard.

He received his Ph.D. in Educational Psychology at the University of California at Berkeley and completed post-doctoral studies in cognitive science, clinical neuropsychology and marketing. He is co-director of the Association for the Advancement of Relationship Marketing's Customer Equity Initiative.

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