CHAPTER 3

The Balance of Push and Trust Is Shifting

As described in the last chapter, customer power springs from three sources: more purchase options, more valuable and timely information, and a greater degree of transaction simplicity. The new power of the customer is causing manufacturers and dealers to move from push/pull marketing strategies to trust-based strategies. This suggests that each industry has a balance of forces that determines whether push/pull- or trust/advocacy-oriented marketing strategies will work in that industry.

THE BALANCE BETWEEN PUSH/PULL AND TRUST/ADVOCACY

Figure 3-1 presents a weights-and-balance scale analogy of the balance between push/pull and trust/advocacy marketing strategies. The scale analogy displays the trade-off between the two extreme ends of the strategy spectrum. At one extreme is the pure push/pull business model, which involves virtually no trust. In a push-based business model, a company tries to manipulate customers into buying products and services. The goal is to get as many sales as possible, especially sales of high-margin items. Alluring, flashy ads create hype that drives sales; advertising and marketing emphasize form over substance. Fulfillment and after-sale support are minimal and very cost-oriented. Under the push business model, the goal is to get the next sale, rather than the sale after that.

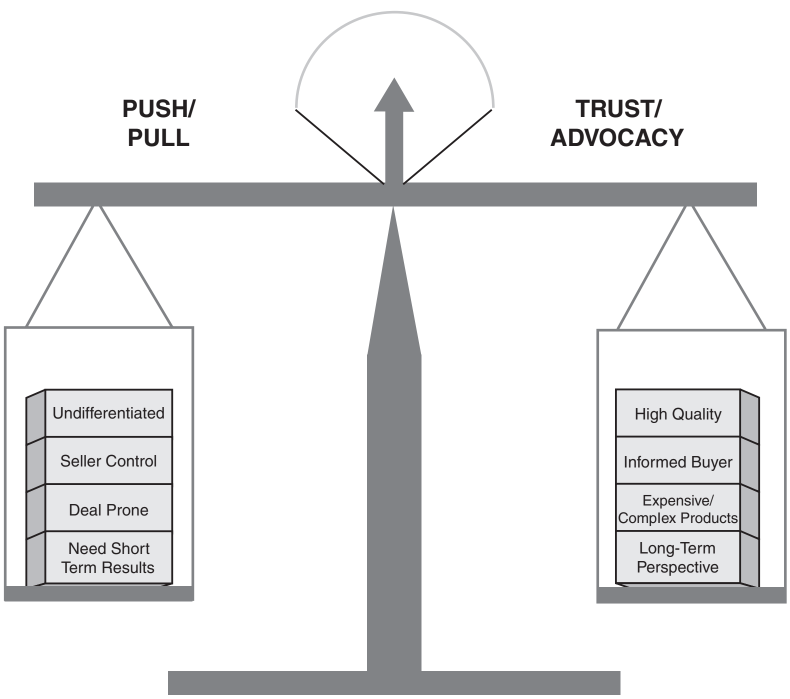

Figure 3-1 Balance Beam for Push/Pull and Trust Strategies

At the other extreme is an advocacy strategy that seeks to earn customers' trust by acting on their behalf at all times. Sales, marketing, fulfillment, and support all work together to under-promise and over-deliver. In seeking to unconditionally serve and satisfy customers, an advocacy-based business will occasionally act against its own short-term interests (e.g., recommending a competitor's product or covering the cost of some extreme level of service). Because an advocacy-based company tries to build customers for life, these companies strive to create reputations for impeccable honesty. Although a fully trust-based business can lose customers (whose needs or circumstances change), the quality of the experience means that even ex-customers become delegates of that company's marketing department.

In between the two extremes is a strategy based on building relationships with customers. This is often an evolutionary stop on the way to an advocacy strategy that builds complete trust. A relationship strategy is one that tries to connect to customers and create loyalty. The sales processes of such a company try to honestly match customers to the products offered by that company. Such a company offers extensive and largely unbiased information about its own products, although it will not necessarily provide any useful comparisons to competing products. A company that is building relationships has a value-based pricing strategy so that customers know that they are getting what they pay for. Because trust is one element of this intermediate business model, companies in this category will have adequate fulfillment and support services that deliver the promised value to the customer (e.g., high-quality products, adequate returns processes, and service guarantees).

If an industry has undifferentiated products, and the sellers have market power, then push is likely to be the observed strategy. This would also be true if customers are deal-prone and have very high price sensitivities. Another factor that impels the push effort is the necessity to get short-term results. Aggressive promotion is often an effective lever to get short-term sales movement.

On the other hand, if an industry has high-quality, differentiated products, and buyers are highly informed, then advocacy strategies are likely to be effectively utilized. Customers will get the information on their own, so giving fair comparisons makes sense because customers are likely to make them anyway. If products are high-quality and the design feedback from customers to manufacturers is good, then an advocacy strategy can work because firms are likely to have very responsive products.

Another factor impelling trust is the complexity and cost of products in the industry. If the risk associated with buying the products is high, or the uncertainty of information is great, then trust strategies can be very effective in winning customer loyalty. Finally, if the firm is committed to building long-term value and is not under short-term earning pressures, it can afford to develop a trust program and underwrite the higher initial costs because of the longer-term ROI.

Figure 3-1 shows these factors as blocks. Subtract one and see how the balance shifts. If your product is differentiated, remove the "undifferentiated" block. If your customers control the market instead of you as a seller, remove the "seller control" block. If you are striving for long-term success, remove the "short term" block. Removing these blocks causes the scale to tip strongly toward trust and advocacy.

Now let's apply the balancing-scale analogy to the travel, auto, and health industries in order to understand the balancing factors at a more granular level. Figure 3-1 gives the general factors, but as you will see in the following sections, the specific influences vary across industries. You may have different blocks, but the balance of forces will be indicated as your market changes.

THE BALANCE IS SHIFTING IN THE TRAVEL INDUSTRY

In the 1960s and 1970s, airline services were of high quality and were often differentiated. Travelers were largely businessmen, and they were very informed. Airlines had a long-term perspective and invested in customer satisfaction and loyalty. These factors pushed the balance toward the trust side of the scale. But in the 1980s and 1990s, the markets shifted. Price-sensitive leisure travelers entered the market, and capacity grew faster than demand. In order to fill those seats, airlines resorted to "load management" pricing and discriminated heavily between business travelers and vacationers, as well as between last-minute travelers and those who planned ahead. Rates became complex, and price became the dominant factor. Cyclical fluctuations, combined with high fixed investment, increased the pressure to cover short-term costs and make the quarterly numbers the stock market expected. Prices declined, and costs were cut, resulting in lower service quality and higher customer dissatisfaction. These trends intensified in the 1990s as discount airlines (like Southwest Air and Virgin Airlines) entered the market and capacity increased more while prices eroded even more. By the 2000s, price wars were common. With the drop in travel due to the events of September 11, 2001, airlines faced a tougher environment. Dissatisfied customers were deal-prone and had little loyalty. Big airlines like Pan Am and TWA disappeared, and giant United Airlines and USAIR have been operating under direction from the bankruptcy court. Thus, the airline industry slipped from trust and quality differentiation to price competition and push strategies over a period of 20 years.

On the other hand, the reservation and ticketing industry developed high levels of trust as third-party services (Orbitz, Expedia, and Travelocity) help customers find the best flights and prices for the customer by using full, honest information and acting to maximize the customer's interest, not the airlines. Buyers became informed and found reliable, high-quality ticketing and reservations for airlines and then for hotels. New services reduced the risk of having a poor flight or paying too much. These new companies became profitable, and some now have market capitalizations greater than many airlines. The Internet and electronic tickets enabled trust to be built as customers increased market influence and could exercise more decision options (e.g., using alternate third-party sites, going to the airlines directly, or using the traditional travel agent).

CUSTOMER POWER MEANS LOWER RATES

For most consumers, a key benefit of the shift in balance toward trust and the newfound power in ticketing is the ability to save money as well as the ability to easily make reservations and get tickets. Online price quotes allow consumers to price-shop when it comes to travel planning. Travel sites let consumers go beyond the price quotes from a travel agent and instead explore thousands of possible flights almost instantly. What's more, the cost of obtaining information is virtually zero for consumers with Internet access, and only a small charge is added for the ticketing services ($6–$11 typically, but as high as $15 for some international airlines). Finally, the abundance of online information provides consumers with reviews of airlines, hotels, and other travel amenities that they may not have had access to in the past. This enables informed tradeoffs between price and quality. In addition to saving money, customer power raises the importance of service quality. Tourist information sites provide consumers with destination information on restaurants, sightseeing tours, and tickets to local events. With the development of online travel sites, consumers now have the ability to plan their travel any time, day or night. More travel sites are offering one-stop shopping. With a few clicks, a consumer can do everything, from purchasing airline tickets to shopping for concert tickets, renting a car, and planning a complete vacation with overnights at small bed and breakfasts.

Growth in power is not restricted to final consumers; it also affects business customers. Before the Internet, small businesses relied on travel agents for their business travel needs, paying a combination of management and transaction fees. Unless they spent millions a year on travel, suppliers would not offer them discounted fares. Furthermore, small-sized businesses typically did not have dedicated travel managers to keep track of travel expenses.

With the advent of B2B online travel agents that target small and mid-size companies, such as GetThere.com, Yatra.net, Delta's MYOBTravel.com, and Continental's RewardOne program, these smaller businesses can now have more control than ever over one of their biggest expenses. The B2B online agencies not only provide standard travel management tools, such as customer profiles and real-time tracking reports, but they also aggregate purchasing power of multiple customers to negotiate deals with suppliers. As competition heats up in this historically underserved B2B travel market, suppliers are providing additional incentives for these small businesses to book directly through them. For example, MYOBTravel.com customers receive a discount on the first, fifth, and tenth bookings through the site, representing 10%, 20%, and 30%, respectively, off the published fares. The percentage of business air travel transactions conducted online increased from 9.5% in 2001 to 34% in 2003.[1]

THE TRAVEL INDUSTRY IS RESPONDING

In response to emerging customer power and the slip toward the push/pull end of the scale, some players in the travel industry have decided to further empower consumers with a straightforward business model to build trust and loyalty; others have chosen to use the Internet as a tool to target different market segments. Southwest Airlines's Internet strategy is apparent throughout its web site—direct and simple. No matter what the route is, the web site offers nine standard fares (e.g., Refundable, Child, Senior Citizen, Roundtrip Fare in the time period Mon-Fri 6:00 AM–6:59 PM, Discount, etc.). Southwest also lets customers cancel reservations online or apply funds from a previously unused trip to a new purchase. According to Nielsen/NetRatings and Harris Interactive, Southwest Airlines is a top-ranked online travel site for customer satisfaction. The rankings for customer satisfaction include factors such as site ease-of-use, information availability, flight options, pricing, duration of shopping experience, and customer service. At Southwest Airlines, you are told exactly what you will get, and the business delivers on its promise. The quality/price tradeoff is understood, and trust builds as those expectations are consistently fulfilled.

Customer salience is increasing within established airlines like Delta. According to Delta Airlines's former CEO Leo Mullin, the Internet enables his company to generate incremental revenue by providing different value propositions to different segments of travelers.[2] By partnering with these other discount web sites, Delta can better manage available inventory by selling off unsold seats. Furthermore, with the consumer data harvested through these

[1] Reed, Keith. "Flight Control: Companies turn to online booking to cut travel costs." *Boston Globe.* 14 August 2003. pp. E1 and E4.

[2] Leo Mullin retired from his position of CEO at Delta Airlines in May 2004.

sites, Delta migrates selected price-conscious travelers to become loyal customers by offering targeted promotions.

Likewise, Orbitz, Expedia, and Travelocity have aimed to further empower customers. Travelocity's business model is to provide travelers with choices and control at the best value. "We provide our customers savings in terms of time, as well as money, by offering great choices, deals, 24/7 customer service and convenience, such as FareWatch emails," says Mike Stacey, Director of Loyalty at Travelocity. As the leading online travel agency, Travelocity is much more than a web site that sells plane tickets. In the wake of airlines' zero-commission policy, Travelocity is diversifying its revenue mix to rely less on transactional air-ticket sales and more on high-margin products like cruises and vacation packages. Although airline tickets remain the biggest segment of Travelocity's business, much of Travelocity's growth has come from other travel needs. Having realized that consumers look for more personal interactions when it comes to purchasing complex products like cruise packages, Travelocity recently added call centers in Pennsylvania and Virginia that focus strictly on cruise and vacation sales. Shoppers can now call Travelocity's trained agents seven days a week for information, or even to book via the phone. To further reduce reliance on airline commissions, Travelocity recently agreed to buy Site59.com Inc., a last-minute travel company, for $43 million. Site59.com, named for the 59th minute in an hour, sells bundled vacation packages through partnerships with hotels, rental car companies, and airlines. Acquiring Site59 will enable Travelocity to expand its high-margin merchant business, in which it buys hotel rooms and airline seats on consignment at a discount and then sells them for profit.

Although 4,500 travel agencies have gone out of business, travel agencies, both big and small, are here to stay.[3] But the boundary between online and traditional sales channels will disappear. Because of the intense competition for travel dollars, consumers can now choose from a variety of ways to buy travel: through a traditional agent, through an aggregator site, or by booking directly

[3] Heartland Information Research. "E-Commerce's Impact on the Travel Agency Industry," October 2001, p. 2.

with the supplier. Instead of fighting this rising consumer power, travel industry players are embracing it by offering open and honest information, more options, better advice, and simplified procedures. Travel agents are differentiating in order to service travelers who want personal service and who are willing to pay for it.

Customer power is creating a travel revolution as new intermediaries are forming and old market structures are adapting.

IN AUTOMOBILES THE SHIFT IS TO TRUST

In the 1950 to 1995 period, push strategies dominated the auto industry. Dealers had the power, and customers had limited information about a risky and complex decision. The unflattering stereotype of the pushy car salesperson is familiar to anyone who has purchased a vehicle from a dealership. Unfortunately for consumers, it existed for good reasons. Before the Internet, dealer sales representatives could be pushy because it paid to do so. Consumers generally had little knowledge of invoice pricing and quality ratings of automobiles and were unfamiliar with what inventory they could expect the dealer to have. Furthermore, finding out what inventory other dealers had typically meant visiting those dealerships—an inconvenient, time-consuming process. In the past, many a slick salesperson convinced many an uninformed customer to pay too much for too little. Consumers found themselves relying on the dealership for almost all of the vehicle information, a scenario that rewarded pushy sales tactics.

With the Internet (see Figure 3-2), consumers have as much information as they want, including pricing and even dealer inventory in some cases. As a result, informed consumers can walk into a dealership and tell the sales representative exactly what vehicle they want, how much they are willing to pay for it, and where they will go for the next best alternative in the event that negotiations at the first dealership fail. The major factor that keeps the scales from tipping further in the direction of trust-based marketing is that 35% of consumers still do not conduct research on the Internet (they often mistakenly think that they can outsmart the dealer), and so the dealerships that are quick to identify these consumers are still able to rely on some level of push marketing.

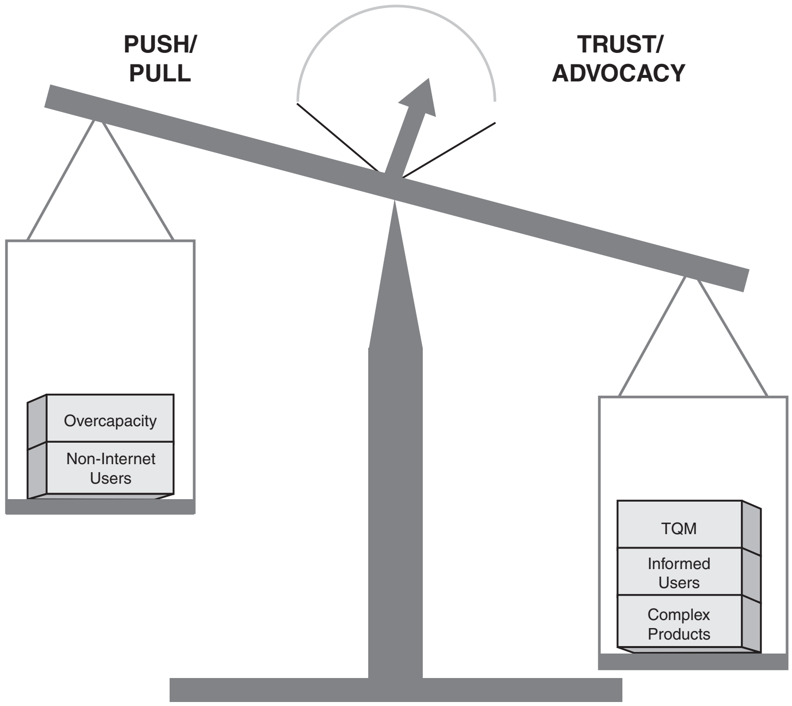

Figure 3-2 Balance Beam for Auto Industry

THE VULNERABLE BUYER SAVES THE MOST MONEY

This new power has resulted in lower prices for automobiles. As cited in Chapter 1, "Now Is the Time to Advocate for Your Customers," customers save an average of $450 by using an Internet buying service when purchasing a vehicle.[4] Seventy-five percent of this savings stems from the provision of information. Online buyers enjoy better prices than the 65% of offline customers. According to research, there are two sources of savings: of the total savings of $450, $378 is due to better information and referral to a dealer, and $72 is due to buying from low-cost dealers affiliated with the IBS.

[4] Fiona Scott Morton, Florian Zettelmeyer, and Jorge Silva-Risso, "Internet Car Retailing," *Journal of Industrial Economics.* vol XLIX, no. 4 (December 2001), pp. 501-19.

The savings from using the Internet are greatest for the most vulnerable segments in the market—women and minorities. Research shows that African American and Hispanic customers pay approximately 2% more ($400 on a $20,000 car) than other customers if they buy offline.[5] This is largely due to income, education, and neighborhood differences. Women pay 2% more than men. For minorities who use the Internet, the difference is zero, so they save the premium they would have paid ($400) and gain the Internet saving of $450. The Internet is the equalizer by giving disadvantaged buyers better information and providing them with education about autos.

The empowering effect is very evident when one compares the impact of the Internet on auto buyers who like to bargain versus those who do not like to bargain and are therefore more vulnerable to push auto selling methods. Table 3-1 presents the results from a study that examined the impact of using the Internet for information only versus using the Internet both for information and to gain a referral.[6] The first column in the table shows those who do not use the Internet and the price premium they pay relative to the base of the people who like bargaining and do not use the Internet—zero premium. As you would expect for non-Internet purchasers, those who dislike bargaining do pay a price premium—a higher price by about 2.1%. The second column shows the price premium for those who use the Internet but do not take the referral to a dealer from the buying service. These people pay no premium if they like bargaining and .4% price premium if they dislike bargaining. For those who do not like to bargain and use the Internet, this is a lower price by 1.7% relative to those who dislike bargaining and do not use the Internet (2.1%–.4%). In other words, by using information on the Internet, people who dislike bargaining

[5] Fiona Scott Morton, Florian Zettelmeyer, and Jorge Silva-Risso, "Consumer Information and Discrimination: Does the Internet Affect the Pricing of New Cars to Women and Minorities?" *Quantitative Marketing and Economics.* vol 1 (2003), pp. 65-92.

[6] Fiona Scott Morton, Florian Zettelmeyer, and Jorge Silva-Risso, "The Effect of Information and Institutions on Price Negotiations: Evidence from Matched Survey and Auto Transaction Data," Working Paper (Hass School of Business, University of California Berkely) December 2002.

save 1.7%. Using the Internet provides no lower price for those who like bargaining (0% versus 0% in Table 3-1). The third column shows the effect of Internet use with a dealer referral. The lowest prices are paid by those who use the buying service referral: –.8% for those who like to bargain and –.04% premium for those who dislike bargaining. For the vulnerable buyers who do not like to bargain, they can save 1.7% if they use the Internet (but not the dealer referral) and 2.14% if they buy the car through the Internet Buying Service (2.1% + .04%). Using the Internet Referral reduces the premium difference for those who dislike bargaining to almost zero relative to those who relish bargaining (–.04% versus –.08% or only .04% more). The vulnerable buyers who do not like to haggle gain the most from the Internet power they accrue.

Table 3.1 Price Premiums for Autos for Those Who Use the Internet Versus Preference for Bargaining

	Do Not Use Internet	Use Internet no referral	Requested referral
Like Bargaining	0%	0%	–.08%
Dislike Bargaining	2.1%	.4%	–.04%

Source: Fiona Scott Morton, Florian Zettelmeyer, and Jorge Silva-Risso, "The Effect of Information and Institutions on Price Negotiations: Evidence from Matched Survey and Auto Transaction Data," Working Paper (Hass School of Business, University of California Berkeley) December 2002.

These price benefits are complemented by a reduction of the time it takes to shop for a car.[7] The net impact of lower prices and less effort to buy are explicit measures of increases of customer power benefits.

INDUSTRY MARKETING IS SHIFTING

The benefits of a $450 savings may seem small when compared to the $20,000 price for a car, but the savings are real for customers. For the dealer, this $450 represents as much as 33% of their contribution margin. This has caused the beginning of a revolution in automobile marketing strategies.

[7] M. S. Lee, B. T. Ratchford, and D. Talukdar, "Impact of Internet on Information Search for Automobiles," Working Paper (University of Maryland, Bethesda, MD) 2002.

Vehicle manufacturers have taken advantage of the Internet to cultivate a better relationship with consumers. The Internet has proven to be a powerful point of contact that enables two-way communication with the consumer. One recent initiative, which aims to expand the role of the manufacturer, is Auto Choice Advisor, created by General Motors (GM). This service provides impartial recommendations from a database of over 300 vehicles, most of which are non-GM products, and is available on impartial sites such as Kelly Blue Book and Car Talk. The consumer enters a variety of preferences for major attributes desired, and the service applies an algorithm to rank the "best" vehicles based on those individual preferences. GM hopes that this tool will provide meaningful insight into which vehicle attributes customers value the most. The success of this advisory web site depends largely on how much trust the consumer is willing to place in GM as a source of advice, which GM is attempting to bolster by partnering with trusted sources such as J.D. Power and AIC (see Chapter 7, "Is Advocacy for You?" for more details).

Once heavily threatened by the potential of the Internet as an alternative purchase channel, the dealer network has responded with its own Internet tools. The response, however, has been slow due to the federal franchise laws that require all new vehicle sales to be made through an authorized dealership, thus reducing the perceived threat from the Internet entrants who cannot sell directly to consumers. The Internet has presented dealers with an opportunity to redefine their relationship with the consumer. The task is not easy, though, because the industry suffers from a long history of strong distrust between consumers and dealership sales representatives. The most progressive dealers have responded by establishing a customized sales process to cater to Internet-savvy consumers. Because many consumers now walk into a dealership with full knowledge of invoice pricing and vehicle availability, there is higher potential for a trust-based sales process, with more emphasis on matching customers with their desired vehicles, and less effort expended on trying to manipulate the customer's opinion. Currently in my experience, about a third of dealers are innovatively forging a new customer sales strategy, and almost all of these have special sales representatives to deal with Internet customers.

As more customers rely on the Internet for research in the shopping process, the scale clearly tips toward the trust side. The customer, armed with Internet-provided information, is able to quickly verify dealer claims about invoice pricing, options content, rebates, and even regional availability. Thus, the Internet presents a breakthrough opportunity for dealers to change the mindset of many customers in how they perceive the trustworthiness of the dealership. As the role of the Internet continues to expand in the automotive sales industry, the effectiveness of trust-based strategies is expected to increase. Although many dealers are caught in the middle between push and trust today, the industry appears to be steadily progressing toward the full-trust model in the long term.

Outside of the United States, the impact of the Internet on automotive shopping has been most prominent in Europe, a market largely similar to the U.S. European markets have also seen the emergence of rapidly growing automotive web sites that provide research tools for pricing, specifications, options, and availability.[8] This market is experiencing a lag compared to the U.S. in terms of percentage of new car shoppers that utilize the Internet in their search process. This effect is due primarily to the overall lag of Internet adoption in Europe compared to the U.S.

One major impact of the Internet in the European market has been on unofficial imports across the European Union's now-open national borders. Due in large part to highly variable tax structures in different countries, the prices of automobiles can vary by 30% to 50% from one country to another. Britain has seen a surge in vehicles that are imported into the country by individuals purchasing in lower-cost countries such as the Netherlands. More than 5% of new car registrations in Britain are now from unofficial import purchases.[9] Such import sales are also on the rise in Germany, Austria, and France.

[8] Britt, Bill. "Internet Proves a Powerful Sales Tool for Automakers." *Automotive News Europe*. 8 (15): 7 July 28, 2003.

[9] Mitchener, Brandon. "Tax Arbitrage: For a Good Deal on a British Car, You'll Need a Boat." *The Wall Street Journal.* 19 July, 1999.

The Internet is a major enabler of this import process, giving broad access to pricing and availability in other countries. This instant access to more options is a key source of customer power. In fact, importing intermediaries, which operate primarily through a web site, are providing shoppers with nearly all the vehicle information as well as the transaction logistic details needed to make a purchase. In contrast, dealers in low-price countries are taking a cautious approach to selling cars for export. Many have avoided overt promotions of this business, citing contractual arrangements with the manufacturers. However, by law, any EU citizen can freely purchase a car in any other EU country. Empowered by pricing and logistical information, British customers are finding it easier to import cars and can even schedule a "Car Cruise" journey for the round-trip journey to select their vehicle.[10]

The extent to which one considers the Internet to be a paradigm shift in the automotive industry depends on one's initial vision of the Internet. For those who saw the Internet as a new way to purchase cars that would make the existing dealer network obsolete, the Internet has been a disappointment. Consumers still prefer to "kick the tires" prior to making a purchase, and dealer franchising laws protect the traditional process for completing a sales transaction.

From the standpoint of reaching customers in the research process, the Internet has indeed created a paradigm shift. Increased access to information (unbiased information on pricing and features), purchase options (more dealerships and alternative referral channel models), and simplified transactions (no-haggle sales or import support intermediaries) all contribute to increasing customer power and decreasing profit margins for dealers. The business of marketing to consumers in the automotive industry is undergoing a radical shift in reaction to the increase in consumer power. The ability of customers to aggregate information, compare brands, and shop across dealers of the same brand is increasing in scale and scope. The auto industry shows how customer power shifts the balance between push and trust.

[10] Mitchener, Brandon. "Tax Arbitrage: For a Good Deal on a British Car, You'll Need a Boat." *The Wall Street Journal.* 19 July, 1999.

HEALTH—THE NEED FOR TRUST IS INCREASING

As we saw in the last chapter, customers have access to more health information. Web sites, such as CDC.gov, and the availability of information in direct-to-customer ads (e.g., the special supplements in the Sunday edition of *The New York Times*), along with increased government regulations requiring disclosure, have dramatically increased information availability, thereby moderating the traditional control of the doctor. This is a force toward trust-building in the industry, but just as significant is the increase in the number of decisions patients must make. Employees now must choose between different health plans offered by their employer and, increasingly, they may choose the brand of prescription they want. In the U.S., customers are offered options when they go to a pharmacy. Typically, they are offered the health plan's generic brand for a $10 co-payment, a branded product on the formulary of the plan for a $20 co-payment, or a branded product outside the formulary for a $30 co-payment. This decision puts the customer in a more powerful position and provides an opportunity to make a choice. Many plans let members choose their doctor and their hospital. Due to liability exposure, doctors are more often explaining the options for treatment and asking the client to choose than making the final choice for the customer. For example, in cancer treatment, the doctor may explain the advantages and disadvantages of chemotherapy, radiation, or surgery, but often the patient must make the final choice with (or sometimes without) the doctor's recommendation. These new decision requirements have shifted the balance toward patient power over medical decisions and the need for trust building by medical system members.

Another structural change that is shifting the balance in the health industry is online community groups, which provide an important source of information when patients must make treatment decisions. Virtually every major disease has a community group where people share stories and exchange information. (For example, heart disease has communities at Heartcenteronline.com, arthritis has RAacademy.com by Aventis, cancer has Wellnesscommunity.org, and Herpes has a site called The Herpes Outreach Center by Novartis). Figure 3-3 shows Wellnesscommunity.org, sponsored by a consortium of drug companies (Roche, Amgen, and Lilly, among others). People join these communities to find support, information, and like-minded souls. Whereas doctors may have little time to spare for each patient, these online forums offer a venue in which people can take their time and explain their problems, ask for advice, and find information. People share information about the progress of their disease, coping strategies for everyday living (e.g., kitchen tools that can be used by sufferers of rheumatoid arthritis to open jars and cans), links to other informative web sites, stories of adverse reactions to drugs, experimental treatments, tips for working with insurance companies, and so on. In turn, these groups create customer power when the newly knowledgeable participants go to their doctors and demand particular treatments.

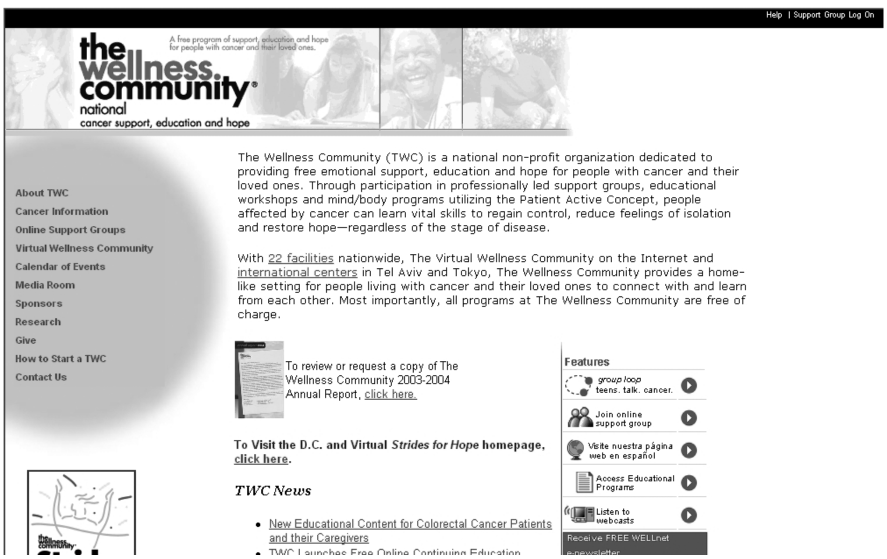

Figure 3-3 Communities in Health Empower Consumers

The widespread acceptance of HMOs, the growth of generic drugs, and the advent of communities also build the level of trust patients possess and grant patients more influence. The scale is tipping because of easy access to information, growing knowledge of customers, and patient communities.

FUTURE RELATIONSHIPS WILL BE COMPLEX

Although it is clear that the paradigm is shifting in the travel and automobile industries, the situation in the health industry is more complex because of the intricate relationships between industry participants. Pharmaceutical firms, hospitals, doctors, regulators, insurers, retailers, and HMOs all participate in responding to increasing customer power. All these participants in the health system are perceiving the importance of patients, and many are developing Total Quality Management programs.

To date, however, it is not clear which group might become the consumer's advocate and gain the trust of consumers. Doctors and hospitals were the source of trust in the past, but the impact of HMO patient scheduling, liability, and spiraling costs has eroded trust in doctors. HMOs could be the trust leaders, but cost pressures and incentives sometimes work against patient trust. Pharmaceutical companies could be leaders, but they are often concentrated only in specific disease classes. Insurers could be a viable leadership group because by encouraging preventive care and good practice, they can reduce their costs. The government often provides unbiased information (scoring high on that trust dimension) and regulation to protect customers, but it plays too small a role in delivery to be the major trusted provider of health services. Perhaps the future will see a consortium of system participants who will respond to customer needs and demands for more information, choices, and simplicity.

Although it is not clear who will take the lead in responding to customer power, all members of this industry are moving to accommodate more educated and demanding customers. Industry participants will need to earn the trust of patients to be successful. Patients are moving to control their healthcare, and they are increasingly making choices about whom to favor with their patronage.

POWER, BALANCE, AND IMPACT

We have seen that consumer power is increasing in the travel, health, and automobile industries. The balance is shifting from push/pull to trust/advocacy strategies, and the impact on the industry structure and consumer savings is real. In the next chapter, we will see that these trends are not restricted to these three industries but in fact are evident in many industries.