

WHEN TARGETING SWITCHERS WORKS

The practice of offering lower prices to switchers may work in certain industries,

for example: a) where there are barriers to the free exchange of information; b) where consumers believe it is not in their interest to actively take note (e.g., they think of this as a sensible switching cost or want to increase market size so prices for all can be lowered); or c) where companies can explain price difference for motives other than profit.

“While switchers may be tolerant of loyals getting a lower price (perhaps accepting that loyalty *should* be rewarded), loyals may be less tolerant of switchers getting a lower price. **Switchers getting a lower price is, simply put, akin to loyalty being penalized.** Thus, it would seem that extending better offers to switchers may best be kept quiet, whereas there may be less need to hide better offers to loyals – in fact, our model would suggest that, **if jealousy effects are strong, a company may even wish to publicize its promotion strategy,**” concludes the research. (More from Bernie DeGroat at bernied@umich.edu)

¶ **Editor’s Note:** Real-life example happened to this editor when phone service wrote to announce new bulk rates for those who had been paying full freight. Letter was sent in error to numerous customers who were already at bulk rates. But the pitched rate was lower than what loyal customers were paying. Customer service’s response when called? “It is the consumer’s responsibility to stay on top of rate changes and to call and ask us.” How foolish to force the customer, who has already made the decision to use that organization’s services, to continue to shop around. Outcome: company lost a 25-year relationship with this editor.

ITEMS OF INTEREST TO PROFESSIONALS

¶ **702 New Consumer Mags Were Launched Last Year**, according to *Samir Husni’s Guide to New Consumer Magazines*. Guide features: the 30 most notable launches of the year; detailed profiles of the 702 new mags; the year in review; stats from 1991-2001, including ad-edit ratios, cover price, subscription price, etc. This 17th edition of the guide is \$95. (More from jnrbb@olemiss.edu or www.shgncm.com)

¶ **Rob Seitz Communications Celebrates 20th Anniversary** by donating 20 hours of pro bono pr service to each of the first 20 NPOs that contacts his office. “I know from my own personal experience of serving on not-for-profit boards that public relations and related services are often needed by these organizations but that these functions are considered to be an unaffordable luxury. So rather than spend money on a party or comparable promotion to celebrate this significant milestone for my company, I decided to give back to the community,” says firm’s founder and president Rob Seitz. Important caveat is that Seitz must be contacted by a board member and not by the NPO’s exec director. “It’s very important to me that these business executive board members make a commitment to any communications program that may result.” (More from robseitz@ix.netcom.com)

¶ **E-mail Often Confuses Action With Act**, writes John Graham of Graham Communications (Quincy, MA). A by-product of efficient communication – fax, voice mail, e-mail, “but particularly e-mail – is the erroneous belief that sending a message is all that’s required. In other words, an act (sending an e-mail message) is confused with action (resolving a problem, for example). When asked about a particular situation, we often hear someone say, ‘I sent her an e-mail’ as if sending the message absolves the sender from further responsibility.” (www.grahamcomm.com)

CORPORATE PR SEES INCREASING NEED FOR COMPETITIVE INTELLIGENCE, BUT IS STYMIED BY LACK OF ACCESS TO IT

It has long been obvious that practitioners need to move beyond the communication realm and into the business of analyzing competition and counseling management. Now, that’s underscored by a recent survey of corporate practitioners. The survey, conducted jointly by Fleishman-Hillard (St. Louis) and Fuld & Company (Cambridge, Mass), finds that 75% of pr execs at 53 large US and multi-national companies “strongly agree” that **an understanding of business is just as important in their position as communication expertise.** A similar majority (70%) believes access to competitive intelligence (CI) would have increased the effectiveness of their previous communications campaigns. So the upshot is that practitioners need to be in a position to a) study the marketplace, b) report findings to the CEO and c) integrate the findings into a strategic plan.

The enormous volume and complexity of information drive the trend, says Ron Penoyer, svp of Fleishman-Hillard. “The sheer quantity of information that business officers, management and everyone else must deal with has been mind-boggling and will only become more so,” he told *pr*. “Competition is so fierce – every industry you can think of is more competitive and has better ways of being out front. **Competitive intelligence is a way of finding out what you need and what you need to be.**” Meeting these demands frequently involves leveraging the advantages of CI, which provides valuable information in critical areas such as competitor positioning, actions and strategies; industry trends; opportunities and threats; and many other issues.

But, practitioners say their companies face difficulties in obtaining CI that has a strong impact on business performance. **These are the problem areas:**

1. Assessing a **competitor’s strategic goals** beyond what appears in the annual report (40% say so)
2. Analyzing **market factors** that influence a company’s pricing strategy (19%)
3. Predicting **how rivals may react** to an intended public announcement (17%)
4. Determining **critical issues** driving a firm’s stock price and overall value (9%)

“**We need to find a way to turn information into strategic analysis,**” says Penoyer. He adds that in an increasingly competitive marketplace, gleaning such info is a challenge. “CI will allow practitioners to communicate more effectively with a variety of stakeholders. It brings to pr a framework for not only studying and analyzing info, but also a means by which to provide solid background about the competition with which to develop a strategy.”

“Part of what this survey points out is that the job of pr practitioner is changing enormously,” says Penoyer. “It’s much more oriented toward performance impact. Our jobs have to be aligned with that goal. Secondly, **corporate practitioners and communications specialists must be viewed as counselors rather than communicators.**”

HOW IT'S APPLIED

Many of the companies typically maintain a CI function. Four out of five (83%) have either an in-house CI capability or use both inside and outside sources. Only 13% of companies don't have resources or do not know what type of function exists in their company.

Results also show that marketing (53%) and strategic planning (23%) are most frequently pegged as the areas that could most benefit from using CI on a regular basis. They say it's less useful to corporate public affairs and government relations (9%), investor relations (8%), and internal communications (4%), but that should soon change. "We expect the use of CI in these areas will grow. Communicators are increasingly seeing the benefit CI affords them by staying current with best practices used by their competitors in addressing governmental, investor and employee issues."

In investor relations, for example, CI could enhance communications programs with investors by auditing and analyzing the perceptions of securities analysts, then building a competitive positioning matrix. "Communications professionals need foresight, the ability to see ahead of the market, not just reporting history," says Leonard Fuld, pres Fuld & Co. "Practitioners must do more than just review the same data everyone else has. That does no one a service. Corporate communications programs need to analyze the data and anticipate market and competitive conditions. PR programs that employ CI will offer a powerful service for their companies." (More info from Penoyer at 314/982-9176.)

FEMINIZATION OF THE PROFESSION COINCIDES WITH FEMININE BUSINESS MODEL, BRINGS THE DESIRED "INTUITIVE" APPROACH

PR people who lament the rising numbers of women in the profession should save their complaints when they consider that a "feminine" business model is coming to the fore. According to St. Louis practitioner Felicia Collins, methods to communicate with consumers are being fundamentally retooled as a new dominant buying public – females – demands messages that are a) softer, but informative, b) nurturing, but not demanding, c) proactive and considerate, not reactive and harsh. "What we are finding is **companies that are more collaborative with employees and customers are having more success**," Collins told prr. Rather than employ a hierarchical model of communication, management should share messages throughout the organization and empower employees and customers to make their own decisions and use their own skills.

"NURTURE" IS THE WORD

"Everything is moving at such a rapid pace now," says Collins. "The life cycles of products have shortened.

Customer expectations have changed. And in today's service-oriented world, *nurturing* is the new mantra for business." She points to companies like Southwest Airlines and Amazon where employees are empowered to make customers happy. "These **companies have elevated customer service standards to such a degree that competitors must find ways to follow suit or become obsolete.**" Characteristics include: a) anticipating customer needs; b) seamlessly delivering messages and products their audiences want; c) valuing things like employee happiness and customer satisfaction. "These emotional elements speak to a momentous change – and require companies to rethink who they are as they attempt to meet market demands."

"The collaborative model is more reality based than the hierarchical one," says Collins. "Companies are reacting to what their publics want. It's **an approach that's more feminine because women tend to be more collaborative, more intuitive** about the way they do things."

OUT WITH THE OLD

She says even when companies understand and can articulate their vision, they miss the boat by concentrating on tried and true analytical data and singular processes to solve problems instead of **creating more complex emotional and multifaceted solutions that fuel customers and employees alike.** "As with modern medicine where it would now seem barbaric to amputate a leg due to knee problems – so are new customer service and communications processes. These problems require a more holistic approach," Collins says. "Nurturing requires companies to look at what is at the heart and soul of the organization and consider how that is being communicated." (More from Felicia Collins at 314/982-9176)

CONSIDER BETRAYAL AND JEALOUSY WHEN WOOING CUSTOMERS

Consumer preference for organizations is affected not just by prices they themselves are offered, but also by prices available to others, propose professors Fred Feinberg & Aradhna Krishna of U of Mich, and Z. John Zhang of Columbia U in their research "*Do We Care What Others Get?: A Behaviorist Approach to Targeted Promotions.*" The researchers assert that **offering lower prices to get new customers can be less effective than rewarding your loyal customers with special deals.** "Loyal customers feel betrayed when 'switchers' get deals and not them," says Feinberg.

Their research shows the effects of "betrayal" and "jealousy." If a loyal customer sees prices being offered to "switchers" that are lower than those offered to themselves, their preference for the company decreases. A loyal customer's preference also diminishes if a competitor offers special prices to its own loyal customers. The researchers found that in either case of betrayal or jealousy, loyal customers are 12% more likely to buy from another company *even if they would not gain by switching.*

Ignoring the impact that betrayal and jealousy have on loyal customers could bring a decrease in profits (about 9%) while competitors may see profits rise by roughly the same amount.

TARGETING SWITCHERS HAS NEGATIVE OUTCOME

Targeting switchers can be effective if the company's loyal customers **are not aware** of the lower prices offered to newcomers. With the presence of the Internet, however, this is highly unlikely. The researchers illustrate the problem with a Washington Post article (9/27/00) about Amazon.com selling the same DVD movies for different prices to different customers:

"With its detailed records on the buying habits of 23 million consumers, Amazon is perfectly situated to employ dynamic pricing on a massive scale. But its trial ran into a snag early this month when the regulars discussing DVDs at the Web site DVDTalk.com noticed something odd. One man recounted how he ordered the DVD of Julie Taymor's "Titus," paying \$24.49. The next week he went back to Amazon and saw that the price had jumped to \$26.24. As an experiment, he stripped his computer of the electronic tags that identified him to Amazon as a regular customer. Then the price fell to \$22.72. 'Amazon was trying to figure out how much their loyal customers would pay,' said Barrett Ladd, a retail analyst with Gomez Advisors. 'And the customers found out.... Amazon says the pricing variations stopped as soon as the complaints began coming in from DVDTalk members.'"

Such targeted promotions are commonplace, say the researchers and list examples of similar policies: a) Wildlife conservation society in NYC offers free T-shirts to entice new members, but not to current members who choose to renew; b) many magazines offer calendars and other gifts to new members only; c) phone companies are notorious for offering lucrative bonuses to potential switchers; d) health clubs frequently advertise to new members by offering a special discounted rate.