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The information age and benefits to database marketers

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Automated marketing and the growth of 'customer compliance' businesses

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Abstract

A new type of business has grown in the past 10 years, predicated on the technical innovations provided by the Information Society. These innovations affect all aspects of social organisation but this paper attempts to map their effect on businesses only and on companies utilising database marketing in particular. The strategies and systems developed by companies across a range of sectors are in their infancy, and they are innovating and developing at such a pace that they enjoy competitive advantage over traditional businesses. Although enabled by ICT, these businesses have also broken path dependent practices in fulfilment, supply chain and the provision of customer service. Due to commercial reasons, little information is available on the specifics of the operations of these new businesses that we refer to as 'customer compliance' businesses. However, their success across sectors, even during the current recession, is obvious. This paper attempts to identify such new practices, link them to current marketing theory, and suggest implications for traditional businesses as well as academic research as the underlying theory is clearly inadequate and lags behind practitioner innovations.

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Synopsis

This paper offers an overview of the strategies, tactics and philosophy of a group of businesses that have emerged in the past 10 years by using internet, intranet and call centre technologies to automate their marketing and fulfilment functions. Deregulation and globalisation, as well as easy broadband access have also driven their activities. Their innovative business models and strategies were initially discussed by the authors in a study of the service recovery and customer complaint handling of these companies (Kasabov and Warlow, forthcoming).¹

In the *EJM* paper, we argued that companies across sectors were not actually practising 'customer-centricity', but rather made their customers 'compliant' to their management systems. In return,

Are academics keeping pace with practitioners?

customers receive good value for a relatively low price. These 'customer compliance business model' (CCBM henceforth) businesses combine differentiation and cost leadership, achieving sustained competitive advantage over traditional businesses. Successful CCBMs have achieved growth and profitability. Examples of CCBMs are found across sectors: low-cost air travel (easyJet), banking, insurance and financial services (Barclays, Egg, Directline, E-sure), retail (Tesco, IKEA.), telecommunications (NTL), TV and broadband supply (BT, Virgin/NTL), car rental (Hertz, Holiday Autos), provision of goods (Dabs.com, Amazon), online auctions (eBay), and travel and tourism (Expedia, Holiday Extras), among others.

Marketing and management academics have largely failed to appreciate the importance and prevalence of CCBMs. Our argument builds upon Gummesson's² claim that 'marketing theory lags behind and that marketing as it is taught and researched today is a relic of the 1960s' (p. 585). Similarly, the editorial by Robin Fairlie and Derek Holder (Volume 9, No 4, *Journal of Direct, Data and Digital Marketing Practice*, 2009) highlights the disconnect between academics and practitioners. This failure of researchers and theorists, we suggest, has significant implications for the teaching of the latest automated marketing techniques in universities and colleges. By developing the CCBM, we have attempted to draw together the new developments in automated management and marketing (exemplified by the papers in Volume 10, No 3, *Journal of Direct, Data and Digital Marketing Practice*, 2009) and academic research by offering a theoretical framework to stimulate further discussion and research.

The marketing concept and 'customer-centricity'

Since the 1950s, marketing theory has focused on the 'marketing concept' and 'marketing orientation', both of which encourage marketers to view the needs and wants of their customers as the basis for making marketing decisions and designing strategies. More recently, the 'marketing concept' has been expanded into the 'relationship marketing concept' which is even more emphatic about the importance of building lasting relationships with customers, retaining customers and satisfying customer needs. 'Customer-centricity' remains a central ingredient of both the 'marketing concept' and the 'relationship marketing concept'. It is a term that, the American Marketing Association (AMA) suggests, is frequently defined and used in a relatively loose fashion, and which generally suggests that there is a need for practitioners to focus on consumers' needs and wants.

What is the truth about 'customer centricity'?

Much of current mainstream marketing thinking teaches and instructs about successful relationship marketing initiatives, customer-oriented programmes and customer relationship management (CRM). Invariably, the thinking of marketing theorists and researchers conforms to the principles of 'customer-centricity'. Lester³ provides a few such examples of successful 'customer-centricity': the complaint procedures adopted by ferry service provider Stena Line, the 'Think Customer'

programme at Siemens (UK) and the ‘Sense and Respond’ approach at Fujitsu. We will not review the extensive academic literature on this topic, as it basically repeats the AMA understanding of ‘customer-centricity’. We would rather briefly review practitioners’ and, less so, academics’ work that raises the following questions about ‘customer-centricity’:

- whether the concept makes sense economically, that is, does it cost more than it delivers in added customer value and profits;
- whether businesses *actually* practice ‘customer-centricity’ or merely pay lip service to it;
- whether the expectations and needs of customers are correctly identified by proponents of ‘customer-centricity’.

Misunderstanding modern automated marketing

We argue that both marketing theorists and the media appear to have misunderstood modern automated marketing. Fournier, Dobscha and Mick⁴ explore the association between modern CRM techniques and customer dissatisfaction. They suggest that the growing use of databases, computer-generated personalised messages and the generation of customer profiles have made marketing based on such techniques ‘increasingly trivial’ and not valuable to the customer. Reichheld and Allen⁵ talk about an ‘undeclared war’ that companies wage against customers.

Such arguments are supported in media and practitioner pieces. For example, Lester³ investigates the alleged prevalence of consumers’ ‘personal horror stories’. Lester quotes research by Accenture that concluded that customers’ complaints were not effectively resolved and that top management sometimes viewed complaints as ‘a nuisance’. Such findings reinforce our own position, also shared by Gummeson² who comments that ‘marketing theory lags behind and that marketing as it is taught and researched today is a relic of the 1960s, patched up with decorations such as services, relationships and e-business’ (p. 585).

Customer-centricity or customer compliance?

In the mid 1990s, the increased use of information technology by marketers was reflected in the development of automated database marketing for Direct Mail, call-centre, intranet and especially internet systems. Along with deregulation, globalisation, low cost and widespread availability of Broadband, these provided opportunities for new entrepreneurial companies to experiment with new marketing concepts, business models and strategies (Quader; Quader and Quader).^{6,7}

Many people saw an opportunity to use the internet to start a business, yet their strategies and methods of fulfilment were poorly designed or inadequately implemented. The dot.com bubble crash witnessed the demise of many such new businesses that suffered by competing on the basis of low price only, by ignoring the low barriers to entry in the internet economy and by not adding value to online customers but simply selling below cost. However, those with a sound

Internet based innovations in marketing; how businesses using them have displaced traditional businesses

marketing and fulfilment strategy survived and prospered. Well-established brands such as Tesco, IKEA, high street banks and insurance companies expanded their use of database marketing, and, subsequently, automated marketing to grow or transfer part of their businesses to the internet. In some cases, their growth took their competitors by surprise. For example, despite security fears by some consumers, online banking is increasing in use at an annual rate of 27 per cent, compared to 7 per cent for call centres, 1.4 per cent for the high street branches and only 0.5 per cent for ATMs (TowerGroup).⁸ Another CCBM — eBay — increased its gross merchandise volume by 17 per cent in 2006 alone, and managed to attract over 250 million since 1995 (Mascarenhas *et al.*).⁹ CCBMs such as Amazon, Dell and Southwest Airlines are frequently cited for their ‘market driving’ innovations and sustainable competitive advantage (Arend; Schindehutte *et al.*).^{10,11} These businesses appear to be increasing their market share at the expense of traditional businesses that did not understand or attempt to take advantage of the new technologies. Some companies, such as Amazon, Google, Yahoo and the low-cost airlines, have grown into global brands, despite the current recession.

Academic analysis only partly explains how the CCBM businesses have achieved their competitive advantage. In order to demonstrate the simplistic thinking of customer-centricity research and CRM, which advocates that customised customer service is always better, regardless of cost considerations, we briefly present a relatively detailed Porter strategy-framed discussion of different service approaches and technologies as versions of strategy (see Figure 1).

Porter’s¹² study on strategy types and competitive advantage is closely linked with Abell’s famous concept of the ‘Business Definition’, which is a basic yet very useful way of analysing the nature and orientation of any company. The ‘Business Definition’ tells us something about, first, the customer needs served by the company; second, the customer segments or groups served by the company; and

Figure 1: Hybrid strategy and an example of a CCBM (IKEA)

Source: Bowman and Faulkner¹³

Are Porter's theories still adequate? Can they explain the CCBM's competitive advantage?

The new businesses have developed automated systems which reduce costs by a factor of up to 20.

The core elements of the 'customer compliance' business model

third, the distinctive competencies, resources and technologies that the company uses in order to satisfy the specific needs of the specific segments that it serves.

For instance, Porter's strategic option of 'cost leadership' (position 2 and, less so, position 1, Figure 1) suggests that a company can outcompete its competitors by controlling costs through, first, careful control of input costs (use of non-unionised labour; taking advantage of differences in conditions across locations in terms of taxes or wage rates; use of common resources across units and departments of the company); second, maximising experience curve effects and learning effects; third, integration; fourth, achieving economies of scale (use of simple product lines, production of few products and standard models, long production runs); and finally, re-designing of the company value chain. This strategic option relies on low product differentiation, aiming at the delivery of products or services for the average customer and the needs of this average customer.

'Differentiation' (position 4, Figure 1) is the second strategic option, with an objective of outcompeting rivals on the basis of perceived uniqueness of the products or services that are an on offer. Because of investments in research and development, marketing, sales, customer service, procurement or purchasing, the company charges a premium price.

The third generic strategy, 'focus strategy' (position 5, Figure 1), differs from the earlier mentioned two, in that the company serves one or a very limited number of customer segments (a specific geographic market, customer type or product). These are highly specialised companies that may achieve competitive advantage by combining this specialist focus with differentiation or a low-cost approach.

CCBMs defy the boundaries that Porter drew among the generic strategies. They have invalidated the artificial separations described by him (Porter)¹². More specifically, CCBMs have innovated by combining the generic strategies of differentiation and cost leadership into 'hybrid strategies' (position 3, Figure 1).

At the core of their cost leadership strategy is the economic operational advantage that CCBMs turn into a pricing advantage for marketing purposes. Although it is difficult to find accurate information about an area as complex and commercially sensitive as costs savings, a web site, Lowcostplanet, identifies aspects of operations in which low-cost airlines achieve the savings they do over full-cost airlines: use of economical and less crowded airports, services and onboard personnel (food is not served, therefore there is less need for personnel such as hostesses and cleaning staff), flying to full capacity (because of the extensive use of IT systems setting the pricing according to demand), fast turnaround times, and use of new, efficient and single type aircraft. These strategies generate a cost of 0,06 EUR per km for low-cost airlines against 1,2 EUR in full-cost airlines — a cost-saving advantage of 20 times.

The CCBMs combine substantially lower prices based on lower cost structures (low-cost leadership), cost-effective service failure recovery

and complaint management systems (low-cost leadership), good customer service through the identification of unmet customer needs and providing novel services, solutions and experiences (differentiation), and targeting their messages to individuals through highly individualised, one-to-one marketing by using database marketing techniques and automated marketing (the ultimate form of micro-segmentation).

Last but not least, CCBMs differentiate by incorporating 'price-demand' automated systems that allow, in effect, the customer to set the price — a clear example of differentiation through customer involvement in the service provision process. Such a process did not exist when Porter developed his topology, yet it allows the customers to match their needs to perceived value. Although CCBM businesses are perceived as low-price, it could also be argued that they charge 'premium' prices because they always charge the maximum price that any individual customer is prepared to pay. This not only avoids the need for traditional marketing techniques such as end of season sales, price promotions and the like, but also maximises sales, particularly in those services in which the product is perishable such as tourism and travel.

Studying the service recovery practices of these new model businesses, it became evident that they used more than just automated marketing systems. They also automated as many of the elements of their businesses as they could, by integrating and transferring information between them.

In one area, our findings challenged marketing theorists' longstanding beliefs that traditional practices of dealing with customer complaints manually and on an individual basis ensured successful recovery of the complainer as a customer (the service recovery paradox), and that complaints were useful sources of 'intelligence gathering', for purposes of product and market research — building on, but also expanding on, earlier arguments that loyalty in online service provision is weak (Szymanaski and Hise),¹⁴ that common expectations that customer demands and complaints are legitimate are not true (Steinauer; Tomlinson)^{15,16} and that the service recovery paradox is not prevalent and may not even exist (Maxham III and Netemeyer; Andreassen).^{17,18} Analyses of current practices suggest that very low-cost automated and prescribed systems have replaced traditional systems, enabling staff to utilise the clear rules (usually available online) to 'discipline' customers, that is, to force customers to 'comply' with company regulations and processes. An example is an incident involving socialite Tara Palmer-Thompson who was not allowed to board a Ryanair flight without her passport, even though she had been asked to sign autographs for the Ryanair staff who had immediately recognised her (Creaton).¹⁹ As this strategy of making the customer 'compliant' could be easily contrasted with the 'customer-centricity' strategy, we refer to this as the CCBM. The term 'CCBM' was then extended as a short-hand term to describe all aspects of the business model of such companies, being based on highly controlling automated systems satirised by the Little Britain TV show as *'The computer says no' syndrome*.

**Do not listen to
your customers
complaining!**

CCBMs should not be confused with dot.coms

CCBMs are not necessarily pure dot.com businesses. However, they all appear to maximise the use of database marketing (profiling individuals and abandoning traditional segmentation techniques still taught in marketing courses and appearing in marketing textbooks). They all use some form of automated marketing, often driven by automated market and marketing research that delivers results in real time. The systems require customers to input the data into the company systems — described by Coad²⁰ as ‘do-it-yourself’ service provision — thus saving costs and providing up-to-date, accurate and reliable information on individual customers. These systems also facilitate the practice of automated service recovery. Even though many CCBMs started by using call-centres, these have also been automated or have been replaced by online self-help systems, which are sometimes (as in the case of software and IT management) built by the customers themselves.

As already noted, CCBM companies are found across sectors. Examples include businesses in sectors such as low-cost air travel (easyJet), banking, insurance and financial services (Egg, Directline, E-sure), retail (Tesco, IKEA), telecommunications (NTL), TV and broadband supply (BT, Virgin/NTL), car rental (Holiday Autos, Hertz), provision of goods (Dabs.com, Amazon, PCWorld), online auctions (eBay), travel and tourism (Expedia, Holiday Extras, Thompson), as well as adult content sites and gambling provision, among others. Sites such as Facebook and Youtube have also evolved, and clearly meet previously untapped customer needs. Search engine operators have grown into powerful corporations (Google, Yahoo), and are able to direct and control clients by holding data about customers, their purchase and browsing habits, in order to meet individual needs as part of micro-marketing and mass personalisation.

CCBMs have succeeded, even though academic theory suggests otherwise

So how have CCBMs succeeded when much academic theory suggests that they are doing the exact opposite of what constitutes ‘customer centric’ strategy? It appears that CCBMs are very lean organisations using automated IT systems to maximum advantage in order to reduce costs. However, in order to offer value for money that is almost invariably superior to that offered by their rivals (incumbents and traditional businesses in the sectors in which they have appeared), CCBMs have to make the customer comply with automated company systems, both online and when dealing face to face with staff: an aspect of their operation that was clearly illustrated in the ‘Airport’ TV series illustrating the everyday work of easyJet’s front line check-in staff. easyJet staff were portrayed as inflexible, following strict company rules and standard operating procedures (SOPs). Being empowered by such SOPs, they were able to confidently deal with angry customers, never conceding to customer demands. This not only made good television viewing, but also educated the general public of the airline’s conditions, which were aimed at ensuring faster turnaround and maximising aircraft use, thus also lowering costs and providing a better service to the passengers.

Operating very lean organisations and using automated IT systems are not the only innovations introduced by CCBMs. These companies

**CCBMs succeed
by breaking 'path
dependent' marketing
and management
norms**

**Customers comply
because they get good
value for money and
good service**

have implemented many innovative marketing ideas that have broken path-dependent marketing and management practices. Examples include charging early airline seat bookers the lowest price and late bookers full price, thus reversing the tradition of highly priced early booked seats and dumping seats through 'bucket shops' to fill the plane at the last minute. Low-cost airlines are also thought to use automated computer algorithms to vary seat price so that both load factor and profit are maximised. Additional innovations include scrapping paper tickets, doing away with the frills, charging for each service (baggage handling, check-in fees, insurance, tax) individually and charging a 'priority boarding fee' (thus generating considerable revenues at no additional cost to the company, but obviously exploiting a customer 'need'). Further attempts to 'discipline' customers and make them 'compliant' include the planned closure of Ryanair's airport check-in desks by the end of the year, a move that is likely to reduce airport costs and congestion, thus benefiting both customers and the company.

A second example of breaking path-dependent marketing practices is Amazon's policy of offering competitors space to sell lower-priced products on its website. Although seemingly a counterintuitive strategy, it appears to further Amazon's objectives of building its client database and encouraging traffic through its site, in order to remain a dominant player in that sector. The more data it can acquire on each client, the more accurately it can offer, through automated marketing additional products and services that the customer will purchase. The practices of CCBMs such as Amazon clearly demonstrate the value of such partnerships both as a 'valuable organisational resource' and as a 'source' to get access to external, valuable resources (Teece; Leonard-Barton; Rungtusanatham *et al.*).^{21–23} The innovative business model of CCBMs thus frequently owes much to their ability to make best use of their partners, but also to extract maximum value from internal, in-house databases (see Deschamps).²⁴ The example used — Amazon — has been cited often as a good illustration of successful integration of supply chain activities (Mehta),²⁵ involving partners in one's way of thinking (eg Amazon's cooperation and openness) (Sebastiao and Golicic).²⁶

The reason that customers are willing to comply so readily with the CCBM systems, procedures and processes — see Stone *et al.*'s²⁷ models of customer management and their discussion of customers behaving in compliant ways as well as associated benefits — is that they get a much lower price with a better service (good value for money). This is something that not only the media and regulators but also some marketing theorists appear not to understand, partly explaining why newspapers and other media delight in reporting (or misreporting) stories about the 'failures' of CCBMs. However, it is clear that CCBM customers continue to vote with their feet. In spite of negative publicity and media 'Schadenfreude' (deriving pleasure from the alleged misfortunes of CCBMs such as low-cost airlines), CCBMs are still rapidly expanding and reporting increased profits at a time of a general economic downturn in many sectors.

Link marketing is the norm for CCBMs

Affiliate or link marketing (sometimes referred to as working with merchant partners) is very prevalent among the CCBMs — most certainly not a new development, as link marketing has always been central to marketing (Rust and Chung),²⁸ but one that has been central to the success of CCBMs such as Tesco (Anonymous).²⁹ It is easy and cheap to link websites while hiding the fact from users that they are being transferred to an affiliate's site. Banks use the technique to sell insurance over the counter, which requires more investment in traditional marketing promotions and back-office systems but works as well. Affiliate marketing allows businesses to extract value from their databases at low marginal cost, and the profit generated often contributes disproportionately to the bottom line. A study of the accounts of the low-cost airlines demonstrates the value of such practices.

'Old' versus 'New' compliance

Elements of compliance are not entirely new, though. Companies have always required customers to comply with their regulations, procedures, rules and channels in some way or another in order to get what they want. In fact, long before the arrival of customer compliance, the way it is practiced these days, customers had to comply with arcane processes. For example, in order to buy car insurance, the customer had to go to a broker, get a cover note and wait for the policy. To buy an airline ticket, one had to visit a travel agent and wait while they explored the global booking software systems. Even in the area of government services, identity validation has traditionally been a slow process, requiring candidates to go through a series of steps proving identity. The important point is that compliance will always be there, in one form or another, because it protects companies and allows them to do business with the kind of customers they want to do business with. The break of CCBMs from past compliance practices, though, is in terms of

- compliance becoming much easier and more customer-controlled, with 'user-generated content', because the new technologies allow PCs and company systems to (re)identify customers, store their history, and not force customers to repeatedly provide the same information;
- compliance becoming more visible, obvious and not hidden. That is, compliance systems and procedures are largely understood by the customer without hidden commissions and incentives of traditional systems. easyJet agreed to a series of TV programmes to reveal and educate the general public of their compliance practices, including rules about check-in and boarding gates closing times.

These changes in customer compliance practices, between the CCBMs and earlier compliance practices, are shown in Figure 2.

Four ingredients of the CCBM

The term 'CCBM' derives from the way that these new model businesses manage customer complaints. They operate on the premise

**CCBM is a philosophy;
it is holistic and
affects all company
operations**

that dealing with complaints manually and individually is expensive and does not provide the financial advantages often claimed in the academic literature — a proposition of ours that builds upon accumulating evidence in the practitioner literature (eg Steinauer; Tomlinson)^{15,16} that questions the focus on complainers' legitimacy found in past academic research. In practice, the CCBMs' view is that complaints often disadvantage the vast majority of their customers. Holding an aircraft for one late passenger and spending an hour trying to placate a complaining customer in a bank queue are two examples.

To better understand and analyse the innovations of CCBMs but also in order to distinguish their compliance practices from earlier compliance practices, the following areas of study are proposed (see Figure 3):

- Process and interactions — how they do things using automated back-office systems;
- Place and role of agents — how they manage both staff and customers;
- Relationships and long-term orientation — how they build customer loyalty and brand themselves;
- Research and intelligence gathering — how they use real-time automated systems.

**Rewriting the
rules of complaint
management**

Process and interactions are managed so that they reduce the need for face-to-face or telephone interactions, particularly with abusive and rude customers. Customers are typically required to 'sign-in' and add data about themselves before gaining access. The database identifies and welcomes the client. Service recovery systems are often extensive (returns systems, changing bookings, amending data), thus offering excellent after-sales service. However, the customer has to understand the system and input the information themselves: an example of do-it-yourself service (Coad).²⁰ Where employees engage face to face with

Figure 2: 'Old' vs 'new' customer compliance

customers, clear company scripts allow staff to deal assertively with customers. Information provision is immediate to both staff and customers, and records of previous contacts with customers are easily accessed, further assisting interactions with complaining customers.

To marketing academics, it may seem surprising how quickly customers appear to have learned about, and become compliant to, the systems and processes of CCBMs. For example, Ryanair claim that 97 per cent of customers book online and 75 per cent of customers already check-in online.

Place and role of agents' innovations cover the ways in which CCBMs have designed new systems in order to meticulously control interactions with customers. Internet and call-centre technologies are designed to discipline customers. Through automation, staff and customers know how to interact, usually on equal and friendly terms. Personnel requirement and costs are reduced to a minimum. Automation also provides CCBMs with opportunities to carefully screen and properly train frontline personnel to deal with threatening and abusive customers in a resolute and firm manner. Habitual complainers, whose complaints CCBMs consider illegitimate, become 'conditioned' not to 'fight the system'. CCBMs even seem to use negative publicity to 'train' customers to their systems. Our argument is sustained by the conceptual and empirical discussion of management hiding behind sophisticated technology (Lester),³ of employees implementing inflexible, rigid and scripted rules (Humphrey and Ashforth),³⁰ and of the alleged extensive use of control through direction (Edwards).³¹

Customers are retained by good value, low price and high levels of customer service; not brand loyalty

Relationships and Long-term Loyalty in the conventional sense used in 'customer-centricity' models may be less applicable to CCBMs. Customer loyalty is frequently weaker towards CCBMs because of the ease of changing providers. Customer recovery may be less important to CCBMs than it was to traditional businesses because customers are retained by low-cost and good service, including next day free delivery, ease of returning goods, home delivery, on-time flights and minimal loss of baggage, reduction in time compared to high street shopping, avoidance of queues particularly for banking, insurance and other financial services, and the ability to make online price comparisons. The willingness of customers to deal with such providers is driven by the clarity of expectations of security, perceptions of safety when dealing with recognisable CCBM brands and the customers' 'search for best value'. These expectations are informed by past research findings of, first, the importance of financial security in online service provision (Szymanski and Hise),¹⁴ and second, weak customer-centricity in certain online service provision environments and the 'search for bargains' on the part of consumers (Stockdale).³²

Research and Intelligence Gathering practices of CCBMs are marked by the weaker interest in carrying out traditional market and marketing research through surveys and analysis of the complaints of dissatisfied customers. CCBMs can obtain better market research from internet questionnaires, real-time sales analysis reports on trends and

Figure 3: Aspects of automated marketing of CCBM businesses

comparative web sites. Although the notion of research through complaint gathering and processing has traditionally been appealing to marketing theorists, CCBMs can monitor sales online, in real time, and immediately assess the effect of changes to product offerings, service levels and price. An increasing area of interest is the linking of automated market research to marketing with minimal human intervention. Ensuring high load factors on aircraft by varying price depending on demand is one such example. Associating advertising with an internet browser's profile is a discipline in its infancy, but is actively being developed by organisations such as Google and Yahoo that see it as an opportunity to control whole market sectors.

Traditional businesses fail to match or emulate CCBMs and their practices

The question is why traditional businesses have been slow or unable to emulate the successful strategies of CCBMs. We draw attention to a number of factors that deter large, established, bureaucratised companies with traditionalist thinking, such as those that CCBMs faced when they entered the sectors in which they operate, from beating the 'customer compliance' model with their own 'customer centric' strategies.

First, there is inertia in thinking and prior strategic commitments on the part of these incumbents: every company builds a portfolio of resources, competencies and capabilities that are the source of its competitive advantage. However, they also tend to be 'sticky' and hard to change. In some cases, these commitments may even cause the competitive disadvantage of the company, an example being IBM's investment in mainframe computers at a time when the personal computers were emerging. Second, and partly as a result of the preceding point, companies find it difficult to alter their structures and strategies, if external conditions have been transformed to such an extent that they require some internal adaptation. Third, a company being dazzled by its past success precludes making a case for the need to change, even when fortunes reverse. Such companies follow the course of action that had brought them success, and they become ever more inner-directed and arrogant. Successful companies typically believe that they are immune from failure. Fourth, change initiatives usually face concerted political resistance on the part of staff, management and unions. This is because the 'prior strategic commitments' that we already mentioned breed, and thus become embedded in, power structures with certain departments, units and individuals dominating decision-making. If such central departments, units and individuals are to lose out, as a result of the change implementation, they are likely to resist any attempts at undermining the existing power base. Last but not least, managers in the public and private sector have a poor understanding of the CCBM strategy and the bases of its success. In addition, there is adverse media coverage of CCBMs, with the press producing negative stories about CCBM companies. Reports on Google, Amazon and the low-cost airlines are typical.³³ The CCBM is an overarching strategy that affects all aspects of a business. Unlike many of the management techniques that have been introduced to improve business and public sector management, the design and implementation of a CCBM strategy requires a sea change, generally only achievable by new-starts and open-minded management such as that of IKEA. As a result of all of these factors, we believe that the incumbents that CCBMs have successfully beaten in the past 10 to 15 years exhibit a high degree of 'strong path dependence'.

The techniques rapidly developed by CCBMs are often poorly understood

The media delight in reporting CCBM 'failures'

Towards an understanding of the CCBM

The media seems to have misunderstood the CCBM or are simply keen to discredit successful CCBMs. Journalists produce sensationalist stories, many of which reveal a type of thinking that possibly derives

from the path-dependent marketing and management practices of traditional businesses. Contrary to much of the negative coverage of CCBMs practices, these companies appear to have ignored the 'bad' publicity or even use it to their advantage as a means of 'educating' and thus also disciplining customers. The growth and profitability of CCBMs would suggest that they have clearly met the needs of their customers and, in so doing, have displaced many traditional businesses from the high street.

To test the attitudes of consumers towards CCBMs and traditional businesses but also to understand empirically commonalities or differences in service failure, service recovery procedures, complaint management procedures and outcomes between traditional service providers and CCBMs, an online questionnaire was designed. Differences and commonalities were tested between the following groups:

- Traditional national flag carrier airlines vs low-cost airlines.
- High street communication services vs online ordering of communication services.
- High street banking and financial services, including insurance, vs online banking and financial services, including insurance.
- High street shopping vs call-centre and online product ordering and purchase.
- High street booking of holidays, car hire, hotels and events vs online booking of holidays, car hire, hotels and events (excluding flights).
- High street gambling and entertainment vs online gambling and adult entertainment sites.

The survey instrument was developed by using measurements from previous instruments measuring customer (dis)satisfaction, complaint behaviours, service recovery and complaint management experiences. Alternatively, new measurements were created, in light of the research questions posed in the conceptual *EJM* paper. Of specific interest to us was measuring, first, the relationship history of the respondents as well as the frequency and timing of interactions with the service providers studied by us; second, level of satisfaction with the services provided; third, number of incidents of dissatisfaction with any aspect of the service (also describing, in an open-ended question, the most significant incident in more detail); fourth, the propensity of the dissatisfied customers to complain (if not, reasons not to complain); fifth, type of complaints and avenues used to express one's dissatisfaction; sixth, perceptions of interactions with staff during complaining and comments on the outcome of the complaint; and finally, future purchase intentions.

Empirical confirmation of our thinking

Preliminary results were obtained during Beta testing of the software with two groups of 122 graduates in 2008 and 2009: first, a mixed group of 74 UK, EU and International MBA, MSc and MA students aged 24–32 years in November 2008; and second, a group of

Figure 4: Survey results for customer satisfaction for CCBMs and traditional businesses

48 predominantly UK students, aged 20–23 years in March 2009. The high response rates, of 100 per cent and 96 per cent, respectively, were anticipated, as the testing took place in a classroom setting and students were required to fill in and submit the survey results as part of a summative assessment on survey research and online survey research in particular.

Customers are satisfied with CCBMs and their services

The responses confirmed our expectations, based on the success of CCBMs and their growth figures, available in the public domain. It became obvious that CCBMs met customer needs both by growing the market and by taking customers from traditional businesses. Across all sector categories, apart from high street shopping, the satisfaction rates for CCBMs were higher than those reported for traditional businesses. As regards the level of satisfaction, responses to experiences of dissatisfaction and outcomes, both in terms of satisfaction and propensity to use the services of the companies in the future, were also analysed (see Figure 4). Significant differences were uncovered between CCBMs and traditional, ‘customer-centric’ companies. The differences reveal a higher level of satisfaction and future purchase intentions as far as CCBMs are concerned.

These preliminary results were confirmed during a more recent round of qualitative research involving 235 respondents in the West Midlands area carried out by the cohort of students who had filled in the survey instrument in March 2009. The students were asked to interview friends, colleagues and relatives (convenience sample) using an interview guide focusing on the service provision, satisfaction and dissatisfaction with, complaint behaviour towards and purchase intentions towards a specific CCBM: a low-cost airline. During

semi-structured interviews, respondents were asked questions about their perceptions and attitudes towards the specific set of CCBMs.

The empirical findings are grouped into six 'interview themes', or 'interview narratives', which provide clear evidence that customers seem to have understood and appreciated the underlying principles of CCBMs. Importantly, customers also seem to 'accept' the rules set by CCBMs. Not only do most appear to reward the CCBM by repeat purchase, but also tend to spread positive word of mouth by recommending the services of such CCBMs to colleagues, friends and relatives.

Theme 1: Participants had positive perceptions towards low-cost airlines (89 per cent), irrespective of negative stories of others' poor experiences (17 per cent). Seven interviewees during one round of interviews suggested that they had always had positive experiences while travelling with low-cost airlines. Two knew someone with a poor experience but neither had been discouraged by these stories, and both seemed to still use the company.

Theme 2: Participants gave mostly positive reviews of the low-cost airline in question (91 per cent) when relating to colleagues, friends and family members. Even though some participants appeared cautious and rather unwilling to recommend such CCBMs, examples of positive word-of-mouth predominated.

Theme 3: Both groups of participants, those who had travelled with the low-cost airline being studied and those who had not used the services of the company, shared intentions to use such CCBMs in the future. The results — 63 per cent and 86 per cent, respectively — suggest that brand loyalty towards CCBMs may be stronger than originally conceptualised by us. Illustrative, though, are exceptions such as that of a respondent who was completely put off flying with the low-cost airline after hearing about a family member's incident involving lost luggage. Respondents either enjoyed flying with the company or at least did not mind flying with them in the future. Even the 60 per cent of respondents in one round of interviews who had encountered problems maintained that they would use the service again and would 'be happy to recommend the company to others'.

Theme 4: Participants appeared undeterred by negative media coverage of CCBMs such as low-cost airlines. Media coverage appears to have had only a moderate impact on perceptions. Respondents who had not used the CCBMs' services appeared to be influenced to a greater extent than respondents who had flown the airline in the past. Customers focused on their own (largely unproblematic and satisfying) experiences and not on negative media coverage. Generally, the attitudes towards the CCBM were satisfactory. The consensus was that the value for money outweighed any negative experiences, including the negative press coverage. In spite of the amount of bad press, the respondents either did not know about it or, as expressed by one interviewee, 'purely couldn't care less'. Their future purchase intentions were undeterred: in clear contrast with BBC's Watchdog programme, which noted that 19 per cent of people who used this

There is a clear mismatch between rumours and actual experience of CCBMs

carrier voted never to use them again. One respondent noted, 'I've heard of it being called a cattle market' [followed by laughter]. Such stories, though, are disregarded and clearly lack credibility. The ability of the media to shape popular perceptions, as suggested in other studies, appears to be exaggerated.

Theme 5: Problems seem to have involved 'others' and not the participants. Some respondents (17 per cent) appear to have personal knowledge of other customers who had experienced problems with the carrier. Problems, in order of significance, included lost luggage, flight delays, unfriendly staff, inadequate legroom, flight cancellations without provisions made for customers, difficulties in contacting customer services in order to complain and refunds policies. There were very few narratives of respondents themselves having experienced delays. The most frequent response was that 'the flights were on time'. One customer mentioned how his parents had hesitated to book, due to media coverage. The story indicates that people may be cautious using CCBMs. However, once having used their services, perceptions seem to change.

Theme 6: Participants knew the rules. When asked to describe the company, most participants described it as 'cheap' (35 per cent) and 'basic' (29 per cent). Additional descriptors included 'disorganised', 'rude', 'incompetent' and 'unprofessional'. One respondent described her time on board as 'feeding time at the zoo'. More common, though, were descriptions of level of service that was 'to be expected'. Many respondents (29 per cent) explicitly noted that the company was actually expected to 'get [them] from point A to point B'. Others described the service as 'good value'. One respondent predicted 'a bright future for the carrier, even during the current recession'.

Academic research on customer centricity, automated marketing and service recovery is out of date

Conclusions

There is a lack of research about the actual responsiveness of service providers (Naylor).³⁴ Equally significant is the alleged inadequacy of analysis of online service failure and recovery (Holloway and Beatty).³⁵ This discussion attempts to add to the growing interest in the phenomenal growth and competitive advantage that CCBMs have over their traditionalist competitors. They have broken path-dependent practices in marketing and strategy, and have rapidly developed techniques for automated marketing. As far as the authors are aware, the literatures on automated marketing, service recovery and complaint management as well as automated market research have inadequately discussed some of the arguments raised in this paper and are still operating in a mode of thinking appropriate for the study of traditional businesses practicing 'customer-centricity'.

The reasons for this may be that the developments in CCBM business management practice are very recent and rapidly developing, and thus are likely to take time to be reflected in academic research. Clearly, the speed of development of practitioner thinking, practices and complex systems has left academics with a fast-moving target to study. These delays may also be aggravated by the time it takes

Automated marketing is in its infancy. How will it develop? What will be the implications for businesses and society?

between submitting a manuscript to a journal, getting reviewers' comments, and having it in print. Furthermore, practitioners involved in the design and development of these systems are, for commercial reasons, understandably reticent to reveal details of their business models and processes. Importantly, though, academics are used to teaching using textbooks relying on conventions some of which can be traced back to 1950s and 1960s thinking. It is a daunting prospect for any human being to have to relearn a subject they believe they know, in order to understand and follow the sea change in the way that practitioners operate. Last but not least, the weaknesses of academics reported here may be slow to change. Why they would be reviewed and addressed as the topic of 'compliance' and making customers 'compliant' is not the kind of thing that one hears in public. In the absence of adequate conceptual and empirical analysis, the doubts expressed by a handful of researchers regarding the value of costly service recovery and complaint management cannot be verified. Apart from practitioner journals such as the *Journal of Direct, Data and Digital Marketing Practice*, which has reported practitioner studies on Automated Marketing, there appear to be very few authoritative empirical studies available to inform academics.

It may be useful to speculate on the future development of automated marketing and CCBMs as well as on the effect of these on markets and competition. CCBMs are in the early growth stage of the life-cycle model. They are currently innovating and growing very rapidly. Some commentators suggest that the banking crisis was in part brought about by automated back-office systems that senior managers did not understand and that in effect gained control. There is a real danger that automated marketing will lead to a situation in which managers may lose even more control by not understanding exactly what IT systems and computer algorithms do. A further danger may have to do with the fact that a few companies such as Google and Amazon build databases that may become particularly powerful, thus preventing the entry of other businesses, particularly new businesses, into the market. Although concerns have been expressed about public sector databases, including ID cards and DNA profiling, legitimate concerns about private sector databases appear to be less prevalent in the popular press.

CCBMs appear to have considerable competitive advantage, particularly over small local businesses that operate an entirely different concept of 'customer-centricity', based on knowing the customer personally and remembering his or her needs. Database marketing (which in essence mimics knowing the customer personally) has weakened this advantage of small businesses. Coupled with economies of scale, large companies have taken over most sectors, including pubs and restaurants, chemists, clothing and electronics retailers: areas in which personal knowledge of the customer once dominated.

In light of such expectations, and considering the aforementioned claim that there is a need for marketing thinking to be

‘de-programmed’, we conclude that humanity is possibly just at the start of the development of automated marketing. Its effect on the economy and society in the longer term is difficult to predict, but important to contemplate and understand.

Limitations and avenues for future research

There are two major limitations of this discussion. First, due to the lack of space and out of a desire for focus, we did not cover a number of important CCBM players that may need to be properly studied and understood. For instance, because of their prominence and the size of the market, we note the role of gambling and ‘adult sites’ both of which have led the development of high quality fast loading graphics and methods encouraging instant payment. Furthermore, we did not consider the business-to-business CCBM practices, which are not as visible but are still widespread, with businesses becoming so close that they tend to become indistinguishable. Another area not considered in this paper is the effect of the CCBM strategy on management in the public sector. Social networking sites are a development that allows worldwide networking — a feature that CCBM businesses share. They tend to be very democratic, with customers ‘owning’ and updating the information, providing feedback, reviews and blogs. This information is available for all to see rather than being the property of an organisation, an individual or a public sector body.

**A period of sea
change is upon us
– the outcome is not
predictable**

Second, it is imperative that future research considers examples of CCBM strategy companies that have failed and sources of failure. In addressing this question, we want to point out once again that it is important not to confuse the CCBM business with dot.com businesses. Dot.com businesses were predicated on the use of the internet and frequently lacked a holistic business strategy. CCBMs use the internet to run their systems and manage the automation of all aspects of their business, including manufacturing, supply chain, fulfilment, marketing, pricing and sales. There have been examples of failure of companies practising or purporting to practise the CCBM. However, a detailed analysis of the success and failure of internet businesses and CCBMs would be required to understand this phenomenon. It does seem that the key for CCBMs is that they adopt a holistic approach to managing, ruthlessly keeping costs down, offering very high levels of service and fulfilment (an area where many Dot.coms failed) and breaking path-dependent norms in management and marketing. The internet and back-office automated software systems are only a means to an end and not the reason why CCBMs are so successful!

Don Tapscott in his key note speech at the Annual IDM Lunch 2009 went even further suggesting a new generation of people who think differently to the current generation and who embrace cooperation and working together. In business, these developments will only drive the uptake of CCBM strategies even faster.

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