

# Privacy as a Company Growth Strategy

Privacy Symposium **SUMMER 2007**  
An Executive Education Program on Privacy and Data Security Policy and Practice

August 22, 2007

Return on Customer<sup>SM</sup> and ROC<sup>SM</sup> are registered service marks of Peppers & Rogers Group

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## Where does all our revenue come from?

- From products?
- From salespeople?
- From the brand?
- No, it's simple –
- **All our revenue comes from customers**
  - Actual and potential value
  - Value today and value tomorrow



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## Daimler's prediction of automobile demand

Gottlieb Daimler



World's first four-wheeled gasoline-powered automobile



Limiting factor:  
A shortage of qualified chauffeurs

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## 20<sup>th</sup> Century Marketing

### Finding customers for the products available

Today: more products, channels, capital



Limiting factor:

A shortage of paying customers

You have to maximize the value created by each customer, not just the value of the financial investment

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## Return on Customer: The basics

- All value is created by customers
- Customers create short-term *and* long-term value
- Customers are scarce

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## What is "Return on Customer"?

- Customers are the scarce resource for a business
  - » ROC measures true economic return on this resource
- Consider the ROI on a portfolio of securities
  - » Tally up dividend and interest income during the period
  - » Then add in any increases or decreases in the value of the underlying securities
- But what if you only counted the income?
  - » Stock pays \$5.00 in dividends but declines in value by \$10.00
- A company is like a portfolio of customers who
  - » Buy things currently (current-period profit), and
  - » Go up and down in value (changes in customer equity)

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## How Do Customers Create Value?

1. They buy things today, generating current sales and costs
2. They change their likelihood (today) of future buying and cost generation
  - Suppose a customer calls you with a complaint...
  - It makes sense for a business to try to increase the value that any customer creates
  - This means changing the customer's behavior
    - The company must commit its resources to some campaign or other marketing (or other) activity
  - But what "resources" are required?
    - We use *money*, of course, but also *customers*

## Both money and customers are used by a business when it creates more value

$$\text{ROI} = \frac{\text{Profit from investment} + \text{Change in value of investment}}{\text{Starting value of investment}}$$

ROI answers the question:

How much money do you get for the *capital* you have to use?

$$\text{ROC} = \frac{\text{Profit from customer} + \text{Change in value of customer}}{\text{Starting value of customer}}$$

ROC answers the question:

How much money do you get for the *customers* you have to use?

Which metric to choose depends on what resource is scarcest

Answer: *Customers*

## What do you mean – "use customers"??

- Destroy equity by making money now at the expense of money later
  - Reduce the likelihood of future business – Stuart's cell phone
  - Forfeit all chance of future business from one customer to make money from another
- The DVD rental store fiasco that happens a million times a day



## How do we maximize a customer's value?

Answer: *We become more relevant*

And how do we do *that*?

We build Learning Relationships, take the customer's point of view and anticipate what each customer needs

## Taking the customer's point of view means:



Relationships built on *trust* are the vehicle for customer-specific actions

## ROC has three equally important aspects

- An economic *metric* for calculating the rate at which customers create value
  - Calculating the real costs of mass marketing
  - Financial justification for a better customer experience, higher satisfaction, loyalty, etc.
- A managerial *tool* for making better decisions and taking more effective actions
- A *philosophy* of doing business based on earning customer trust
  - Maximizing the value customers create requires
  - Maximizing the value created for customers

## Creating a culture of customer trust



“Treat the customer the way you would want to be treated if you were the customer.”

Transparency and legislative support



“No one tries harder for customers.”



From “lifetime Menace Award” to one of the world’s most vigilant privacy and security practitioners

“Respect for the Dignity of the Individual”



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## Creating a culture of customer trust

These companies are not just selling something.

*They are building the value of the customer base.*

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## Consider the value proposition with your customer:

- Customer creates the most overall value for the enterprise when ROC is maximized
  - This is most likely to occur at the same point that the customer realizes the most value from the enterprise...
- For a customer engaged in a relationship, when is the enterprise creating the most value?
- When the customer can *trust* the company genuinely to respect his or her own interests
  - Note: Relationships contrast with isolated transactions

*Maximizing Return on Customer requires a firm to earn its customers' trust*

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## Focusing on relationship equity will refocus the business on people

- 1to1 customer relationships
- 1to1 employee relationships
  - Happier employees will make for happier customers
- ROC is more about people than not
- Non-routine decision making
  - 40% of all US jobs
  - Not covered by the rule book
  - Culture governs decisions
  - Trust and relationships vs. transactional pressure
- Relationships
  - Not just because they feel good
  - It's called the Age of Information for a reason
  - Relationships with customers and employees – the only way to survive
- Leadership and Culture matter



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## For a company committed to growing the value of its customer base and increasing ROC

- Data interests of customer and company come into perfect alignment
- Customers are the only source of revenue and value creation
  - Their value increases to the firm as the firm's value increases for the customer
  - That happens only when the customer trusts the firm to look out for the customer's best interest as well as its own
- Thus maintaining trust is imperative for corporate value creation
- Privacy protection is the most tangible manifestation of trustworthiness for many companies
- Therefore privacy protection will be an important business tool, rather than just a regulatory requirement
- ROC = company commitment to growing customer value, which means a commitment to trust, which includes a commitment to privacy protection

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If you commit to ROC,

*Then your organization will be tuned to the customer's frequency for privacy protection*



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If your culture is based on trust  
*Then your employees don't have to memorize rules and become mini-lawyers*



Privacy protection and data security  
 become part of “business as usual”

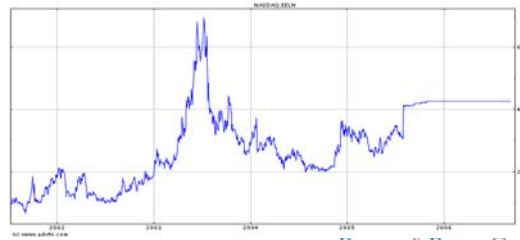


## A case study: E-Loan

- Ranked #3 on Customer Respect Group list and in top twenty of Ponemon Institute/TRUSTe list of America's most trusted companies
- Insists on transparency in an industry shrouded in secrecy
- 2000: Bucked the system by offering consumers access to their own credit scores
- Instituted independent privacy audits
  - CEO Chris Larsen said that stringent privacy controls were imperative to win the trust of would-be consumers
  - CMO Catherine Muriel: “Financial institutions are not regulating themselves”
- So E-Loan sponsored a drive to get privacy legislation on the California ballot
- Also first to offer option of preventing offshore outsourcing of loan apps, not because of a privacy risk, but because some customers don't want financial info offshore. 85% positive response

## Does E-Loan make more money or less because of their commitment to trust and privacy?

- Short term: Forgo some fast cash-in-hand
- Long-term: “If you do the right thing by your customers, they'll do the right thing by you.” (Catherine Muriel, CMO)

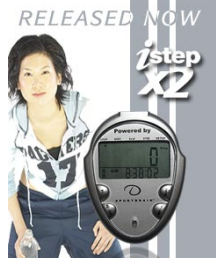


## Vodafone uses privacy as a competitive differentiator



- Uses a privacy-audit process to ensure that all 7500 web pages meet strict European Union data protection standards
- And fosters customer trust as well
- Protects all pages where data is provided by customers, and where “cookies” are attached to customer computers
- Company execs notified instantly if standards are not 100%, or if data is being collected unnecessarily
- Two major components in the audit
  - E-care information area for businesses and consumers
  - E-store for buying mobile phones, plans, and more
- “I doubt if we'd puff off about it. That's like running up to an officer and saying 'I don't steal.' With privacy, nobody worries about it til it's not there.”
  - Amanda Chandler, Vodafone U.K. Data Protection Manager

## Welcome to the World of SportBrain



## Hard to be a teen today

- When my son starts driving, he'll get a SportBrain
- And a Nextel phone
  - Cell phone features Family Locator service which show on a map where the phone is (and maybe the teenager)
  - All members of the family must sign consent before using it
- Sprint-Nextel believes "privacy touches everything":
  - Senior Management
  - Public Relations
  - Government Affairs
  - Fraud
  - Marketing
  - IT
  - Sales

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## What else keeps Sprint/Nextel CPO up nights?

- Heidi Salow, Senior Counsel, External Affairs, Office of Privacy
- Strategic Hot Topics:
  - Protection of call detail records
  - Identity Theft
- Direct Marketing Practices
  - "One-to-One ideas were the impetus for the miScrub tool," which integrates more than 30 sources of personally identifying information
  - miScrub's objective? To make sure all interaction preferences are adhered to

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## Customers have told us what they want

- "Leave me alone"
- Incentives and gifts
  - One important role of loyalty programs
- Clearly stated privacy policy

Psssstttttttt...

Is "privacy" a compliance issue  
or  
relationship building opportunity?



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Law creates the floor we walk on.  
It does not create trust.



--Jennifer Barrett, Acxiom

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## What is "privacy" to consumers?

We use the same words to mean at least three different things:

1. I don't want you to know about me.
2. It's ok for you to know about me, but don't tell anyone else.
3. Don't bother me.
4. And separately, I want my data *secured*.

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## What is "privacy" to the enterprise?

- To the CXOs: Avoid risk of \$182 per breached record
- To the lawyers: Regulation compliance, litigation avoidance
- To the public relations department: Avoid p.r. debacle
- To those whose mission is to build the value of the customer base:
  - Get information from customers who are comfortable giving it
  - Use the information to build mutual value with each customer
  - Protect information as primary competitive advantage
    - » Security, processes, culture
  - Communicate data protection to customers

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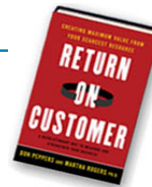
## Long-term leadership in a short-term world

- Trust = Good Will plus Competence
- How can your company focus on the future when today's challenges are so large?
  - Every year, every quarter you get measured for results
  - Yes, we look at client data, but what's it really worth?
  - We have to reconcile short-term financial results with the long-term health of the firm, based on the trust of our clients
- Even with ROC, taking a long-term perspective will require discipline, resolve, and confidence
- **Leaders needed. Enquire within.**

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- **Return on Customer:**
  - Top ten business best-seller
  - "One of the most important reads"
    - *Fast Company* magazine
- Next up:
  - *Rules to Break and Laws to Follow: How Your Customers Will Help You Beat the Crisis of Short-Termism*
- Inside 1to1 Privacy newsletter
- [www.1to1.com](http://www.1to1.com)



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