



Customer engagement

Reaping the rewards of digital outreach

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Private companies are leading the charge in making entrepreneurial use of social media, mobile devices, and other digital avenues to get closer to their customers. While these companies are still in the minority, more are likely to follow suit as competition for customers continues to heat up.

Business is personal for most private companies—a principle that extends to all of their key stakeholders, customers very much included. Indeed, if you talk to leaders of privately held businesses, they are apt to tell you that listening to the voice of the customer is at the heart of what they do.

“Every change our business undergoes is customer driven,” says Joe Sheetz of Sheetz, Inc., where Mr. Sheetz serves as executive vice president and is slated to assume the role of CEO later this year.¹ “It’s us listening to what customers say and filling the need they have. But who knows what they’ll need five years from now?”

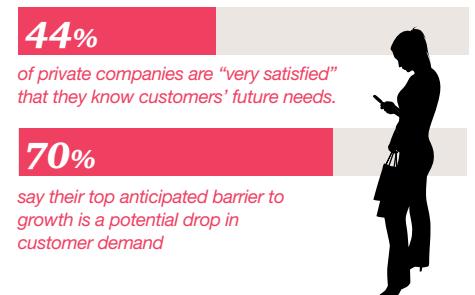
He’s not alone in his speculation. Less than half (44%) of private companies are “very satisfied” that they have a good understanding of what their customers’ needs will be over the next couple of years, while 70% say their top anticipated barrier to growth is a potential drop in customer demand.²

To anticipate customer needs and determine how best to prepare for them, the majority of private companies are investing in obtain-

ing better data on customer behaviors and wants—as well as better analysis of that data—with the ultimate goal of improving their customers’ experience. To that end, many private businesses continue to rely on traditional means of customer research and engagement, such as direct mail and phone. However, a good many private companies (70%) have begun to supplement these techniques with digital options, including social media, mobile devices, and cloud computing.³

Line of sight

Zeroing in on future customer demands



Source: Trendsetter Barometer; PwC, 2012/2013

¹ Sheetz, Inc. is a chain of over 430 stores offering made-to-order food, specialty beverages, gasoline, and convenience-store items.

² Trendsetter Barometer, PwC, 2012/13

³ Trendsetter Barometer, PwC, 2012

Speed and volume are among the chief benefits of using digital tools for customer outreach. Social media, for instance, allows companies to reach a far greater number of customers with their brand message, gather considerably more information about them, and do it much faster than before—all at relatively little cost. Since speed and volume are essential for businesses seeking rapid growth, it's little wonder that the private companies using digital tools for customer outreach expect to grow at a quicker pace than the private companies relying solely on non-digital means: 11% versus 6%.⁴

“The fast-growing companies are the ones seizing digital technologies in a really entrepreneurial way,” says Jeff Auker of PwC’s Customer Impact practice. “Cloud computing, social media, and the like are leveling the playing field for young and mid-size companies by allowing them to do more with less, which helps those businesses compete with their bigger, public-company counterparts. For instance, 10 years ago it would have been cost-prohibitive for a young company to launch large-scale marketing and research efforts on a routine basis. That’s no longer the case.”

Despite the clear opportunities that digital marketing presents, the majority of private companies are still getting their feet wet rather than wading deeply. For instance, although 70% of private companies are using digital avenues for customer engagement and research, just 22% are making anything beyond a minimal investment in social media and mobile devices for those purposes.⁵ That’s likely to change before too long: Nine out of ten US respondents to PwC’s *16th Annual Global CEO Survey* say they are strengthening their customer and client engagement programs; 82% of CEOs are specifically strengthening engagement programs that focus on social media users.⁶

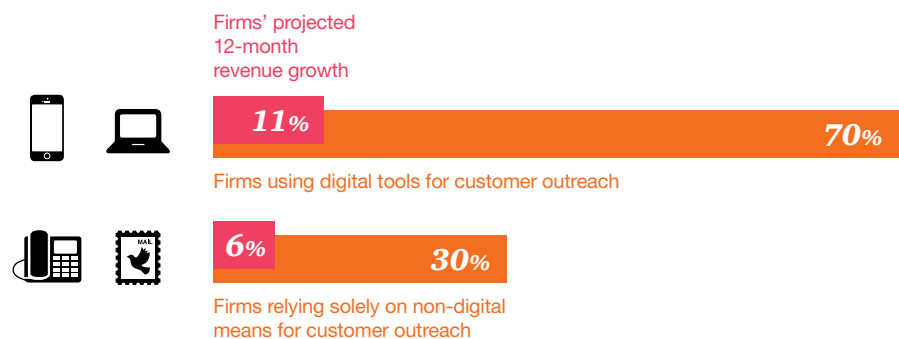
“It’s not so much a question of whether private companies recognize the value of digital marketing,” says Marty Janowiecki of PwC’s Private Company Services practice. “It’s more a question of figuring out the best strategic approach for their particular business. These are customer-focused companies, so it’s important to them that when they do digital outreach, they do it right.”

“The fast-growing companies are the ones seizing digital technologies in a really entrepreneurial way.”

Jeff Auker
Director
PwC

Harnessing digital speed and volume for fast growth

Private companies using digital means for customer outreach are growing nearly twice as fast as their non-digital peers



Source: *Trendsetter Barometer*, PwC, December 2012

⁴ *Trendsetter Barometer*, PwC, 2012; percentages reflect projected 12-month revenue growth

⁵ *Trendsetter Barometer*, PwC, 2012

⁶ Half of the US respondents to PwC’s *16th Annual Global CEO Survey* were private-company CEOs.

Getting closer to the customer

Proximity via multiple channels

When it comes to harnessing digital technology for customer outreach, the top objective for private companies is to better target individual customers.⁷ That goal is becoming easier to achieve with the wealth of customer information now obtainable through digital avenues. Privy to ever-greater insights on customers' preferences and behaviors, companies can now tailor customer experiences to individuals with increasing specificity.

One private company that's doing precisely that is Spotify, the music-streaming provider, which has integrated its service with Facebook's tickers and news feeds. After seeing what friends are listening to, a Facebook user can click on a link that connects to Spotify software on his device, where he can then listen to and purchase the same music. Spotify also allows third parties to create apps on top of its data. For example, a third party can build a calendar of related music events in the user's area. The result is a "hyper-social" business model that blends Spotify's architecture with Facebook's rather than simply linking to it.⁸

Attracting new customers is another top objective for private companies, with more than three-quarters of them flagging that goal as a key area of investment.⁹ Take L.L. Bean, the century-old outdoor clothing and equipment retailer, whose typical customer belongs to the aging Baby Boomer generation: "We're using the web to attract younger customers and get them involved with the brand," says the company's CEO Chris McCormick. One successful example of this effort was the company's Million Moment Mission campaign, which

encouraged L.L. Bean fans to share outdoor moments (one million in all) via social media channels such as Twitter and YouTube. Not only did the company collect one million moments, it also widened its pool of potential brand ambassadors.

Examples like this should be instructive to the three-quarters of private companies that say strengthening customer loyalty is also a key area of investment for them. Brand ambassadors have a potentially powerful role to play, one that will take on increasing importance as more shoppers embrace digital technologies, particularly social media. Their numbers are steadily rising: In PwC's latest annual survey of online shoppers, over one-quarter of respondents said they had discovered brands through social media (up from 17% in 2012), and 59% said they followed brands or retailers on social media, up from 49% the previous year.¹⁰

Leapfrogging retailers

52%

of online shoppers purchase straight from brand websites

Source: *Demystifying the Online Shopper: 10 Myths of Multichannel Retailing*, PwC, 2013



“Direct-to-consumer sales are going to explode over the next five years, but service, value, and experience differentiation can still create a compelling local business opportunity for traditional and multichannel retailers.”

Sean O’Driscoll
Principal
PwC

⁷ Cited by 65% of private companies that are using digital means to engage and research customers: *Trendsetter Barometer*, PwC, 2012

⁸ *Five Ways Spotify Is Pioneering the Hyper-Social Business Model*, Patrick Salyer, mashable.com, March 22, 2012

⁹ *Trendsetter Barometer*, PwC, 2012

¹⁰ *Demystifying the Online Shopper: 10 Myths of Multichannel Retailing*, PwC, 2013

Although retailers are closer to consumers—compared to where manufacturers sit in the value chain—retailers’ proximity doesn’t automatically give them an advantage these days.

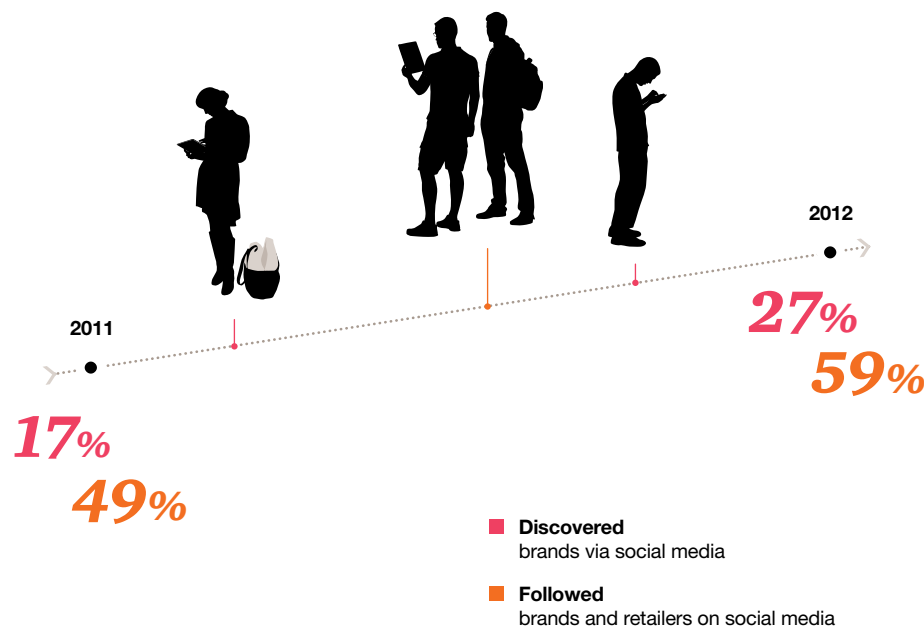
“For retail consumers, the motivation to tweet about a new product or post a video testimonial about a favorite brand often stems from the desire to be part of a larger, shared experience,” says PwC’s Auker. “In the business-to-business space, on the other hand, customers tend to be more interested in the opportunity to act—and be viewed—as influencers. That said, the distinction between the retail space and the business-to-business space is starting to blur now that online customers can purchase directly from brands and manufacturers, so digital marketers will need to keep that in mind.”

In fact, over half of US online shoppers have reported going straight to brand websites to make their purchases, leapfrogging retailers altogether in those instances.¹¹ While this shift in shopping behavior may be moot for a company like L.L. Bean, it’s likely to have considerable implications for other companies.

“Direct-to-consumer sales are going to explode over the next five years,” predicts Sean O’Driscoll of PwC’s Customer Impact practice. “Retailers will need to adapt and find new ways to create differentiated experiences for their audiences, blending the best of both analog and digital experiences.”

Broadening brand awareness

Increasingly, online shoppers are discovering and following brands via social media



In other words, although retailers are closer to consumers—compared to where manufacturers sit in the value chain—retailers’ proximity doesn’t automatically give them an advantage these days. However, it’s not all bad news for retailers, notes O’Driscoll: “In many categories and for many segments of buyers, there remain tremendous opportunities for retailers to create compelling, in-store experiences for consumers. Price leadership is unlikely to differentiate them, but service, value, and experience differentiation can still create a compelling local business opportunity for traditional and multichannel retailers.”

And the threat isn’t imminent. The majority of consumers still prefer to shop at physical stores, at least for now, citing the main reason as a desire to see, touch, and try items before committing to a purchase.

Recognizing this, the online men’s clothing retailer Bonobos, which launched in 2007, recently set up several “guide shops” where customers can make appointments to come and try things on before transacting online. “Although the percentage of people buying clothes online is growing by leaps and bounds, there are still a number of shoppers who want that hands-on experience before making a purchase,” acknowledges Bonobos’s CFO Bryan Wolff.

Source: *Demystifying the Online Shopper: 10 Myths of Multichannel Retailing*, PwC, 2013

¹¹ *Demystifying the Online Shopper: 10 Myths of Multichannel Retailing*, PwC, 2013

Parallel universes Straddling the physical and digital worlds

Developing and strengthening digital channels of commerce while also attending to the still-dominant brick-and-mortar world is something businesses will have to become increasingly adept at if they want to remain competitive. Says PwC's O'Driscoll, "The questions that both brands and retailers should be asking themselves are, how has the buyer's journey changed from 10 years ago, and at what points does that journey touch digital channels?" Although the nature of the journey isn't changing overnight, a business that doesn't start preparing for the changes now may find it's ill-equipped to deal with them once they reach critical mass.

L.L. Bean does not plan to be among the unprepared. While the company's CEO agrees that the transition to multichannel shopping is likely to be gradual, the business is already priming itself for a future where digital channels will be more dominant. "Smartphones and tablets make up roughly one-third of our online traffic," says McCormick, "and so we have a mobile website and are modifying our main website to accommodate the tablet. At the moment, however, people visiting us via mobile devices are primarily seeking information—checking product reviews and ratings or looking for a store location. They tend to go to another channel, such as our website or store, to make an actual purchase."

The online men's clothing company, Bonobos, also finds that tablets are a good source of traffic while not yet proving a significant selling channel. "Tablets provide a really rich web experience, which makes them of particular interest to us," says Bonobos's Wolff. "It's a great medium for a web-based company to showcase a brand. But at the moment, it's not where we're making a large percentage of our sales."

This is consistent with what we're hearing from online shoppers themselves: Few have changed their habits to shop with a tablet more often (roughly three out of five online shoppers don't use this type of device to shop at all). Smartphones aren't making serious inroads as a shopping device, either. In fact, the overwhelming majority of online shoppers still use their PCs to make their online purchases.¹²

So while businesses don't want to be in the position of playing catch-up when tablets and smartphones do eventually become a significant selling channel, most of them would probably be wise to proceed judiciously. Certainly that's the approach Sheetz, Inc. is taking: "It's got to be simple, otherwise we can't execute," says Joe Sheetz. "You know, if somebody orders a hot-food item from us on their mobile device, how will we know when that person is coming? How early should we make the item? In the end, we want to use technology to make our customers' and employees' lives better, not because people can say Sheetz has a cool thing."

Consequently, rather than rush to unveil an app or roll out a new technology, Sheetz generally has a test period first. "When our tests go really well, there's a heck of a lot of momentum to get the new technology out the door," says Sheetz.

For many companies, however, a multichannel sales approach remains a heavy lift, meaning that momentum is likely to be slow until shoppers gravitate to digital channels in greater numbers. As for those businesses that already are taking a multichannel approach, they're well positioned to reap the early rewards.

"Selling across multiple platforms takes considerable effort, but we don't plan to reverse course" says McCormick. "We're a heavily data-driven company. We do all the economic analysis, which shows a customer who buys from multiple channels is worth X amount more than another customer. So at L.L. Bean, there's uniform buy-in for a multiple-channel approach and we plan to stick with it."

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Chris McCormick
CEO
L.L. Bean

¹² Ibid

Risk realities in the digital world

Taking the right precautions

Companies are collecting and using customer information that resides up against the privacy wall. In the process, they run the risk of alienating customers. One way companies can guard against this is by building a customer advocacy team to help prevent privacy and confidentiality missteps.

Companies should also monitor and be ready to respond to negative messages about their brands. Such messages are not, however, reasons for a company to avoid or limit its digital engagement with customers. Says Bryan Wolff, CFO of Bonobos, the online men's apparel company: "If you're open and transparent with your customers and say, 'Hey, I understand you're upset, what can I do to make it right?' then you're apt to find that 99.9 percent of the time people are extraordinarily reasonable and just want that level of empathy from a company."

Data theft is another threat companies must contend with. Risks encompass those associated with the cloud, including third-party storage of large volumes of data. To effectively manage these risks, companies will need to make sure they have sufficient governance and controls in place, with clear support from the CEO as the guardian of customer trust.

Making the most of social media

A natural fit for private companies

Rather than slap the obligatory “Like” button on their web page and call it a day, entrepreneurial private companies are seizing on social media’s ability to let them get closer to more customers than ever before. While any company—publicly listed or privately held—can leverage social media in this way, the latter are leading the charge.

“Most private companies have a strong customer focus built into their DNA, which is why social media tends to be a natural fit for them,” says PwC’s Janowiecki. “But it’s also because social media lets private businesses do more with less.”

Doing more with less was especially critical for companies during the economic downturn and remains an ethos for most startups. “When our company was just beginning, social media was instrumental in helping us get out our brand message, particularly as we didn’t have an advertising budget of any sort,” says Bonobos’s Wolff. “We were able to use Facebook in a really cost-effective manner to engage and interact with a lot of customers, who then referred other customers.”

Retailers aren’t the only ones making the most of social media. Business-to-business (B2B) companies are embracing it as well. B2B videos have even been known to go viral: One of the first and most successful social media campaigns was staged by the privately held B2B company Blendtec, a manufacturer of commercial-strength blenders. A year after YouTube’s inception, Blendtec rolled out a series of videos in which the company’s founder, Tom Dickson, showcased his blenders via send-ups of late-night TV infomercials. In each YouTube

video, Dickson used his machines to “blend” improbable items such as golf balls, smartphones, and a Rubik’s Cube. The “Will It Blend?” videos went viral within days, and the company’s sales skyrocketed.¹³

Delivering on the promise of personal engagement

Just as social media offers companies more ways to speak to customers, it also offers customers more ways to speak to companies. Ideally, this results in a conversation rather than parallel communications. For that to happen, however, businesses need to actively listen and respond to what customers are saying, and not just every so often.

“If someone posts a query via social media, we get back to them and quickly,” says Bonobos’s Wolff. “It’s one of the reasons we call our customer-service reps ‘black belt ninjas.’ Last year, we decided to white-belt the entire company, requiring that everyone, on up to the CEO, do a two-week stint as a customer-service rep.”

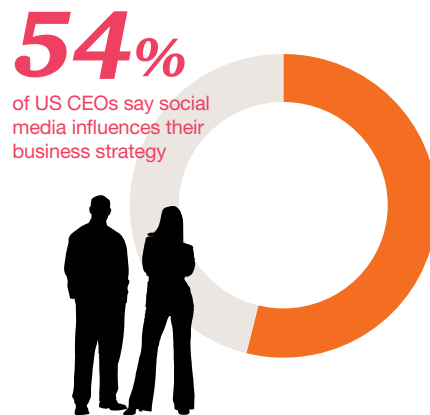
The challenge for fast-growth companies like Bonobos is to maintain that personal touch as they evolve from a small to midsize—and then midsize to large—organization. L.L. Bean, which recently celebrated its 100th anniversary, fully recognizes that challenge and the importance of meeting it.

“These days there’s much more direct interaction with the customer than in the past,” says L.L. Bean’s McCormick. “As a result, we’ve had to transform our customer-service skills to some extent. We do a great job on the phone, where there’s genuine one-on-one interaction, but it’s harder to execute that level of service online, where we’re limited to the chat box and email. Our challenge is to transfer the personal touch we have on the phones to the web.”

To that end, in 2011 L.L. Bean added to its customer-service staff 10 people who are dedicated to engaging with customers via social media. More companies are likely to follow suit, if the US findings from PwC’s *16th Annual Global CEO Survey* are any indication: When asked whether users of social media have an influence on their business strategy, 54% of US CEOs said yes.¹⁴

Whether those companies have a clearly defined social media strategy is another matter. “In our experience, most of them don’t,” says PwC’s Auker. “There are exceptions, of course, especially among the more-innovative private businesses, but most companies are figuring things out by trial and error. And that’s fine, if customer retention and growth aren’t at the top of your priority list. If they are priorities, however, and you’re not making strategic use of social media to meet those objectives, it’s probably worth your while to rethink that stance.”

Social media: CEOs are listening



Source: PwC’s *16th Annual Global CEO Survey*, 2013

¹³ Arik Hanson, “Communications Conversations: 3 B2B Case Studies and Why They Work,” September 17, 2010, www.arikhanson.com.

¹⁴ PwC’s *16th Annual Global CEO Survey*, 2013

“The enormity of customer data we obtain is mind-boggling. The challenge is to mine that information so that we can put things into buckets and say, ‘We’re going to try X with this group and Y with that group, and then we’re going to watch what works and what doesn’t work, and ultimately try to change customers’ behaviors.’”

Joe Sheetz
Executive Vice President
Sheetz, Inc.

Big data

Putting it to profitable use

Three-quarters of private companies say that digital tools have helped them obtain more and better information about their customers. While that is all to the good, there is the monumental task of sifting through the sheer volume of available data—including real-time data streamed from mobile devices—and then making sense of it.

“The enormity of customer data we obtain is mindboggling,” says Joe Sheetz. “The challenge is to mine that information so that we can put things into buckets and say, ‘We’re going to try X with this group and Y with that group, and then we’re going to watch what works and what doesn’t work, and ultimately try to change customers’ behaviors.’ That’s the infrastructure and business intelligence piece that’s being built, not only by us, but by a lot of people.”

Until recently, building the infrastructure and business intelligence piece was too large an undertaking for most companies. The three main obstacles have been (1) difficulty

translating data into insights, (2) the inability of company systems to process large volumes of data from different sources, and (3) a lack of employees with the skill sets to undertake deep analysis of large sets of data.¹⁵

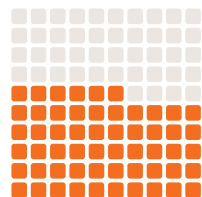
Now, however, increasingly sophisticated information management and analytical tools can harness huge volumes of data at price points far lower than previously. Mean-while, the cost of computing power has declined significantly, aided in large part by cloud computing. With the emergence of these powerful, low-cost analytical tools and computer technologies, companies are able to mine massive sets of data for business insights on a scale that was either impracticable or impossible even just a few years ago.

“In the digital world, you have better tracking and customization, and better ability to use analytics to really understand where each dollar of your marketing spending goes,” says Bonobos’s Wolff. “But it’s a constant, iterative process. Each month we sit down to figure out which channels are delivering the most customers at the lowest cost and which channels we should continue to grow.”

Banking on big data

Private companies are investing in better customer information

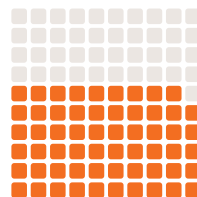
Data management
investment



56%

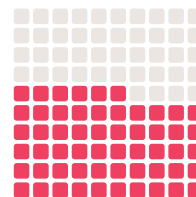
Percentage of companies investing

Data analytics
investment



59%

Impact



56%

of companies expect a significant impact from their data management and analytics investments over the next few years



Source: *Trendsetter Barometer*, PwC, 2012

¹⁵ *Capitalizing on the Promise of Big Data*, PwC, 2013

Wolff believes that it's well worth the effort. He's not alone. "We've been able to identify consumers' personal preferences, buying triggers, and likely brand loyalty by bringing data analytics to bear on the information we mine through social media and other digital means," says Kent Kushar, CIO of E. & J. Gallo Winery. "These fact-based insights are instrumental in helping us improve customer experience, create new products, and drive brand differentiation."

Challenges remain, however. "Warehousing data is a logistical hurdle," says Wolff. "It's not a simple problem, particularly as there are numerous sources of data." And the cost of storing data can be considerable. Companies are reportedly spending about 12 percent of their IT budget on data storage—that figure is only apt to rise.¹⁶

Another major challenge is having enough employees with the right knowhow to make customer data intelligible and actionable. Facing what the *Wall Street Journal* has characterized as an "acute shortage of engineers and software developers,"¹⁷ one-third of private companies are planning greater investment in workers who are adept at technology.¹⁸ But as Wolff points out, companies needn't do all of their data analysis in-house: "For companies that don't have the resources onsite, there's actually a fair number of third parties that can help to varying degrees, ranging from doing all of it for you to delivering more-basic assistance, like helping clean the data to allow you to analyze and optimize it yourself."

Already, the majority of private companies are investing in data management (56%) and analytics (59%). Among those companies that are making such investments a priority, over half say they expect a significant impact in the next few years. Roughly one-third also plan to invest in social media, mobility, and cloud computing during that time-span.¹⁹ Taken as a whole, these investments are likely to yield private companies more and better insights about their customers than ever before.

Conclusion

Private companies that are using digital means to engage and research their customers are overwhelmingly positive about the effort. Most of them, however, are still in the early stages of exploring the full research and marketing potential of social media, tablets, and mobile devices. What will it take for still-hesitant private companies to ramp up their investment? And how can enterprising companies that are leading the charge help ensure that their investment pays off? Four factors are likely to be critical:

- **Enlisting CEO support:** PwC's latest *Digital IQ Survey* shows that, compared with other businesses, top-performing companies are far more likely to have a CEO who champions using technology to execute corporate strategy.²⁰ Although the chief marketing officer is often responsible for private companies' customer engagement programs, nearly one-quarter of private-company CEOs are personally overseeing those efforts.²¹
- **Changing some traditional functions:** New learning will be required, often across departments, so that communicating with customers on digital platforms and mining customer data become part of business as usual.
- **Making discerning use of data:** Private companies have cited data management and analytics as their second top area of IT investment, just after data security. But for their investment to pay off, companies will have to make judicious decisions about which data sources to mine, as well as make sure they have sufficient resources to turn the data into actionable insights.

— **Keeping it real:** As more companies attempt to humanize their brands by building digital communities around their goods and services, it's important that they strive for authenticity. Social media on autopilot won't deliver the personal engagement that digitally savvy customers are seeking, and hence will be unlikely to deliver the benefits that companies are looking for.

As private-company success stories proliferate in this area, so too will the number of businesses embracing digital avenues of customer outreach. "Listening to their customers and delivering ever-greater value to them are central to how private companies conduct their business," says Janowiecki. "Digital tools have an increasingly key role to play in doing just that."

¹⁶ "Big Data Creates Big Industry for Storing Data," *Marketplace*, April 4, 2013

¹⁷ "Revenge of the Nerds: Tech Companies Scour College Campuses for Talent," *Wall Street Journal*, May 31, 2012

¹⁸ *Trendsetter Barometer*, PwC, 2013

¹⁹ *Trendsetter Barometer*, PwC, 2012

²⁰ PwC's 5th Annual Digital IQ Survey, 2013

²¹ *Trendsetter Barometer*, PwC, 2012

More information

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1 2012 Forbes America's Largest Private Companies List