

THE TRUST IMPERATIVE¹

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Now is the Time to Build Customer Trust

Nearly 70% of Americans agree with the statement, "I don't know whom to trust anymore," according to a February 2002 Golin/Harris Poll². Although trust in society and corporations seems to be at an all time low, now is a good time for businesses to embark on a trust-based marketing strategy. Increasing customer power will drive a new paradigm for marketing, a paradigm based on advocating for the customer by providing open, honest information and advice. At the same time, this customer power is reducing the effectiveness of old-style push-based marketing. Thus, the shift to trust-based marketing may be more of a mandatory imperative than an option.

Trust-based marketing involves much more than dropping millions of dollars on Super Bowl ads that say "trust us." Instead, it is an approach to marketing that shifts and deepens the relationship between a company and its customers. Rather than bombarding passive customers, a trust-based strategy creates a positive relationship with an increasingly loyal customer base.

Trust-based marketing contrasts with traditional push-based marketing in the assumptions that it makes about the customer. The old paradigm of push-based marketing assumed that customers did not know what was good for them. Under this old assumption, companies broadcast their hype to push products and services onto an ignorant customer base. This contrast between push-based marketing and trust-based marketing parallels McGregor's Theory X and Theory Y, introduced in 1960. Theory X represented management's old assumptions that

employees had to be pushed into working. Theory Y represented management's new assumptions that employees were responsible individuals that could be trusted to do a good job. The key is in changing the marketing assumptions that companies hold about their customers.

Customer Power is Growing – Forces Are Converging: What Should Companies Do About It?

Although some might view trust as a pleasantly nice idea that cannot withstand the brutal reality of modern day business, we argue that it is business that may not withstand the brutal new forces that underpin the trust imperative. Customer power is growing -- customers now have the tools that inform them of the true state of affairs, avoid the pushy messages of marketers, and help them make their own decisions.

The following seven trends increase the relative power of customers and decrease the relative effectiveness of a push-based marketing strategy. There is a convergence of forces that amplify customer power and make the consideration of trust based strategies imperative.

1. Increasing Access to Information
2. Access to More Alternatives
3. More Simplified Transactions
4. Increasing Communication Between Customers
5. Increasing Skepticism
6. Decreasing Media Power
7. Overcapacity and Saturation of Markets

The Internet is a great enabler for consumer power -- consumers are more educated and more informed than ever before. Consumers now have more tools with which to verify company's claims or to seek out superior product and service options. At the same time, companies have less power to push messages onto customers. Companies must decide what to do in the face of this overwhelming convergence of forces. One answer is to "push harder" with traditional marketing methods to torment customers. Another choice is "trust based marketing" and partnering with customers to jointly succeed.

¹ For more information, please see "The Trust Imperative" by Glen L. Urban, MIT CeB Working Paper No. 175, March 2003.

² James Lukaszewski, editor, *Trust* (Golin/Harris, 111 East Wacker Drive, Chicago, Ill), February 2002

In an era of customer power, untrustworthy companies will be at a competitive disadvantage. The elusiveness of consumers reduces the effectiveness of hype, and the ability of customers to verify the messages of marketers makes hype a very risky strategy. The new Darwinian reality will weed out those companies that do not deliver real value to customers. The point is that companies should consider a trust-based strategy because untrustworthy companies will face increasing difficulties. In the face of these trends, companies have no recourse but to change their relationship with customers.

Trust Can Pay Off

Trust is more than just a self-congratulatory adjective to be appended to a company's press releases. Trust means advocating for the customer's long-term interests. Trust is hard to earn – and easy to lose — but when a company gets it, there are sustained benefits. Trust increases customer loyalty as satisfied customers return to buy repeatedly and widen the range of their product purchases. Trust creates business benefits in four areas:

1. Reduced Customer Acquisitions Costs
2. Higher Profit Margins
3. Growth
4. Long-Term Competitive Advantage

Although this article stresses the consumer side of marketing, these recommendations are even more applicable when the customer is another business. In industrial marketing, the 20% of the sales force that sells 80% of the volume owes much of its success to building trust-based relationships with clients. Moreover, customer power is also rising among industrial customers. Enterprise software systems help companies track the performance of suppliers. In some cases, the customer company might even have better data about the supplier than the supplier itself does.

The sales of commodity items may be done on a cost-based, push approach, but sales of the raw materials and component parts that go directly into manufactured goods are a different matter. In fact, trust is far more important in the supply chain, where companies establish long-term relationships with strategic suppliers. Collaborative development of products -- co-creating the supplier's products to mesh perfectly with the customer's products -- is a good example of the types of trusted-based strategic relationships in the supply chain. An example is

GE's "At the Customer, For the Customer" program, a corporate-wide initiative to help customer companies learn from GE's management experience with Six Sigma and business process improvement. As companies move to lean manufacturing, just-in-time, or outsourcing, they become even more dependent on suppliers. Thus, good suppliers must be trustworthy.

Building Trust Strategy Step by Step

In order to capture the benefits of trust, a company must have a pervasive strategy to establish itself as the trusted partner of the customer. Eight strategy elements provide milestones to achieving the trust imperative. An evolutionary strategy is the best path to establishing trust with customers, earning loyalty, achieving sales growth and being rewarded by customers with margins that lead to premium profits and stock prices. The trust imperative involves the following strategic actions:

1. Strive for transparency
2. Realign to be on the customer's side
3. Help customers help themselves
4. Put the customers to work
5. Build outstanding products and services
6. Compare your products to your competitor's
7. Create a trust-based supply chain
8. Make trust transcend all functions of the firm.

Trust is Not for Everyone

If this author is to follow his own advice, he should alert businesses to the alternatives to trust-based marketing and note that a trust-based strategy is not suitable for everyone. Indeed, many companies face competitive situations, company operating conditions, or customer characteristics that preclude the use of trust. Yet, with each reason to not use trust, there are exceptions -- reasons why conditions that preclude trust might change or might provide competitive advantage to those companies that do choose a trust-based marketing strategy.

Competitive Issues that Deter the Use of Trust

1. Commodities
2. Monopolies

Operational Issues that Deter the Use of Trust

1. Uncontrollable Quality
2. Uncontrollable Quantity
3. Short-Term Financial Focus

Customer Issues that Deter the Use of Trust

1. Short-Term Customer Base
2. Low-Impact Products

Is Trust for You?

Some might feel that the preceding exceptions to the application of trust mean that the old “push” tactics are best. Yet these exceptions are specific and do not apply to every company or market. Managers need to determine if their situation falls into one of these exception categories. But even if an exception does apply, managers can make a strategic decision as to whether they want to continue to fall into an exception category. For example, if a company offers a commodity or low-relevance product, the company could continue to use a status quo push strategy or attempt to differentiate with an innovative product, quality, involvement, and trust. With each possible exception are counter-strategies that let a company to move away from push and toward trust. For example, companies can implement quality measures, improve forecasting, and work to change the locus of competition. The point is that many of the firm’s issues that appear to be counterarguments to trust are at the discretion of the management.

Other, highly successful, companies might argue that they already have a source of competitive advantage – that explicit efforts to create trust are unneeded by companies with obvious superiority. Yet history suggests that many forms of competitive advantage can be transitory. New entrants, new technologies, new government regulations, and new customer needs all create hurdles to long-term competitive advantage. Thus, one can argue that a superior company should use its superiority to gain the trust of its customers while it has the advantage. Trust, with its attendant deep customer relationships, also helps the company adapt to many of the dynamic forces that might otherwise derail a one-time market leader.

The rise of customer power mutes any argument for push even where exceptional conditions would seem to rule out the use of trust. Independently-verifiable reputation and long-term relationships with customers will be more important than easily debunked hype. The ability for customers to learn or track the true performance of companies makes it hard for companies to sustain selfish strategies that emphasize short-term gain at the customer's expense. Likewise, the ability for companies to learn or track the true behavior and profitability of customers makes it less likely that customers will consider only price and sustain disloyal behaviors. Thus,

information technology stabilizes cooperative long-term trust-oriented strategies.

Although some industries do not have all the prerequisites for trust-based strategies, these are relatively rare. Fundamentally, for most firms, it is a choice of two approaches. The first gives in to short-run pressures that drag a company into the push game and that often lead to anemic profits, stunted growth, and lackluster stock prices. The second takes a long-run profit maximization view through respect for customers with explicit trust-based strategy formulation.

The Paradigm is Shifting – Pioneers Will Gain Advantages

Evidence is building that the paradigm of marketing is changing from the push strategies so well suited to the last 50 years of mass media to trust-based strategies that are essential in a time of information empowerment. Managers need to decide where their firm should be in the spectrum from push to full trust. Intermediate points that represent building trust can be an endpoint in the trust level or evolutionary steps on the way to a fully trust-based strategy characterized by all the eight steps recommended above.

There are advantages to being a first mover in this strategy space, because once customers develop a trusting relationship with a firm, they are not likely to easily switch to a competitor. Trust creates a barrier to entry by increasing customer loyalty and by forcing would-be competitors to spend more time and resources to develop a trusted reputation. In contrast, not embracing trust presents a risk to the firm’s growth and returns if other competitors gain the trust of customers first. The movement to a trust-based strategy does present short-run challenges, but it also offers long-run opportunities.

Although trust is not the best response in all situations, innovator firms like GM, Intel and HP are moving now to implement trust-based strategies, and early adopters are formulating action plans to advocate and partner with customers. Trust will increasingly become the norm of behavior in the next 10 years as the new paradigm becomes established and firms meet the *trust imperative*.

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Examples of Current Focused Research Projects:

- Theory T: Trust-Based Marketing
- Implications of e-Commerce for New Services and Structure of Logistics Systems
- How Do Intangible Assets Affect the Productivity of Computerization Efforts?
- Wireless and Mobile Commerce Opportunities for Payments Services
- Two-Tier Support Business Models
- The Impact of the Internet on the Future of the Financial Services Industry
- Pricing Products and Services in the High-Tech Industry

The Center for eBusiness has recently entered into Phase II, adjusting its agenda to focus more explicitly on business value, while at the same time including technologies beyond the Internet in its purview. The early period of exploration and experimentation is coming to an end and there is now the opportunity, and the necessity, to focus more explicitly on using digital technologies to deliver measurable business value. Amidst all this change, the business fundamentals of investment, revenues, expenses, profits, and satisfying customers have only grown more important. At the same time, a broader, inter-related set of technologies is at our disposal. While the Internet has been an important catalyst, related digital technologies are often at least as relevant.

We are co-located with MIT Sloan's Center for Information Systems Research initiative and the Center for Coordination Science to facilitate collaboration. We also collaborate with the Media Lab and the Program on Internet and Telecoms Convergence.



The Center for eBusiness gratefully acknowledges the support and contributions of its Sponsors.

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