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*The Importance of the Customer Experience in a Down Economy, 2008*

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## Customer Psycho-Economics in a Down Economy

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*Stress, confusion, uncertainty and even fear—these emotions are surging in customers because of the economic crisis. Customers feel they have less control over their financial well-being. To cope, they turn to one of two mutually exclusive psycho-economic mindsets. One is a hoarding, a “ride out the storm” mentality characterized by reduced spending and a heightened focus on price. The other seeks relationships with companies that engage them in a process of regaining a sense of control. The customer experience, real or perceived, determines which mindset comes into play. Which one is your business courting?*

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Companies competing on price and convenience must be the most cost-efficient to eke out a profit. The battle is between competitors that in essence bid against each other to win customers' business. Profitability using this approach, difficult under normal circumstances, is especially tenuous in an economic downturn when some competitors feel their survival is on the line. Customers defer non-essential purchases and brand equity is replaced by cost driven indifference. If this remotely sounds like your situation, start looking for ways to decommo-ditize your value proposition.

### Focus on Winning Mindshare

An effective way to induce decommo-ditization is to focus on winning mindshare. This is a process of creating differentiation that enhances value from the customer's perspective. The key to winning mindshare is getting customers to shift their value perspective from price to a broader experiential view. In stressful times, a powerful strategy is to use customer emotional and psychological engagement to reduce anxiety and stress generated by uncertainty. This engagement has two desirable outcomes. One, it enables the customer to address challenges more successfully and achieve a better experiential outcome. Second, the process restores a sense of control over external events. These emotionally rewarding outcomes contribute to desire, creating demand and commitment to vendors facilitating the process. It also takes the focus off of price.

Engagement requires more than telling or showing something to the customer. Trust in a product does not translate into trust in a relationship. This trust is earned from interactions and consequences and does not come from offers or discounts. To achieve relationship trust, companies must deliberately shift the focus of customer relationships from selling things, to the issues and challenges confronting customers. Customers have to become emotionally and psychologically engaged. And, in so doing, they must discover new ways to extract value that is meaningful

to them. This represents a psychological growth in the customer where conditions leading to uncertainty or complexity are now seen as meaningful and under their control. A company can facilitate this growth but must avoid events, actions and clues engendering the perception of a one-sided agenda associated with a transactional framework or they will trigger an indifferent, price focused mindset.

### **Product-centric versus Customer Equity**

These psycho-economics factors are the distinguishing features between product-centric, transaction-oriented companies and companies that deliberately use the customer experience to win customer mindshare and build relationship value, the cornerstones of customer equity. In an economic downturn the importance of the customer experience becomes more acute as deteriorating economic conditions ratchet up anxiety, stress and uncertainty. Add the personal impact of a crisis and what were once benign emotional experiences can become the triggers for an increasingly competitive buyer-seller relationship—a formula for even lower sales volumes and margins. In contrast, companies that strive to reduce customer stress and help them regain a sense of control become highly valued.

### **Apple Stores Case Study**

Apple Stores are a good example of a business that courts the engaged buying mindset and fosters the type of relationship customers value. This is one of the key reasons Apple Stores reached one billion dollars in sales faster than any retailer in history. The minute a customer enters an Apple Store the focus is on their experience. Customers are greeted by a concierge who introduces them to a staff member who can help them make an informed decision. All the products in the store are up and running and customers are encouraged to experience them. A classroom where customers listen to free classes occupies expensive real estate in the showroom. The agenda is clear—help the customer get more value out of Apple products.

A Genius Bar is located along one wall. The ‘Geniuses’ who staff it help customers figure out why their technology doesn’t do what it is supposed to do. Whether it is a lack of “know-how” on the part of the customer or a product that requires repair, diagnosis of the problem is free. Sure, customers pay for actual repairs not covered by a warranty, but the diagnosis is from a trusted source, reducing anxiety or confusion. The logic is simple, help customers get the greatest experiential value from the company’s products and they will be committed, enthusiastic advocates.

Contrast the Apple Store experience with the big-box electronics store experience where signage prominently promotes discounts and incentives. While clerks, if you find them, might know about products, they seldom

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know how to help customers. Post purchase service costs money. Their agenda is clear: sell you something, period. Is it any wonder customers pursue a win-lose buyer-seller relationship?

These psycho-economic dynamics are in play across industries. Research by IBM (Why Advocacy Matters to Retailers) clearly shows that, in the retail industry, companies with the greatest level of customer engagement are the most profitable and have the highest levels of customer loyalty and advocacy. As the economy worsens, these engagement leaders are not focusing on sales and incentives. They are focusing on helping customers gain greater control. They are stepping up in-store demos, educational digital displays and social media to help their customers adapt to reduced buying power. Their customers don't expect lower prices; they do expect help in gaining greater experiential or consumptive value from tighter budgets.

When customers extract more experiential value, an interesting form of resource allocation takes place; they will scrimp elsewhere to be able to splurge at their at their favorite stores and businesses.

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John and Bill Todor are the principals of The Whetstone Edge, LLC, a customer-centric consulting firm that helps clients build customer equity by engaging customers online via social media and delivering compelling offline customer experiences. Their insights are based on an ongoing analysis of how changes in technology, the marketplace and society impact what customers' value and how they make decisions. Their methodologies turn these insights into actionable strategies that help client companies nurture customer relationships that lead to sustainable profits and growth.

**John Todor** uniquely combines two perspectives for developing win-win relationships between companies and their customers. During his tenure as a professor and research scientist at the University of Michigan and the University of California, Berkeley, he investigated how people learn and make decisions. As a business owner, executive and consultant he has faced the realities of turning a profit. He is the author of three books on related topics: *Get with it! The Hands-on Guide to Using Web 2.0 in Your Business*; *Addicted Customers: How to Get Them Hooked on Your Company*; and, *Winning Mindshare: The Psychology of Personalization and One to One Marketing*.

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**Bill Todor** is a former professor of Management and Human Resources at The Fisher College of Business, The Ohio State University. Through his deep understanding of organizational principles and real-world experience, he helps clients face the critical challenge of integrating growth strategies, organizational change and new technology. His specialty is bringing this approach to bear on the challenge of building better customer relationships. While customer-focused initiatives can be valuable, he completes the solution by aligning organizational and employee behavior with other programs to enhance customer equity.

He was the organizational behavior consultant to the Toronto Summit on Relationship Marketing and is the co-author of *Winning Mindshare: The Psychology of Personalization and One to One Marketing*. His business experience spans technology, marketing, government and manufacturing sectors.

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