



Winning in the new Relationship Economy

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As we approach the end of the second decade of the 21st century, we are experiencing a sea-change in how business is conducted. Extraordinary levels of analytical, digital and mobile connectivity are leading to previously unimagined levels of inter-connectedness between businesses and their stakeholders. The traditional product- and market-oriented business model is clearly giving way to something new.

We call the new situation the Relationship Economy.

Powered by digitalisation, cloud-based API technology and mobility, the Relationship Economy is a multi-stakeholder environment in which businesses, their employees, suppliers and partners, and – crucially – the customers, all have direct contact.

This makes it vital to embed relationship intelligence into business operations. A key means to do this is using a co-creation platform.

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RELATIONSHIP:

- *the way in which two or more people or things are connected, or the state of being connected.*
- *the state of being connected by blood or marriage.*
- *the way in which two or more people or groups regard and behave towards each other.*

'Relationship' has featured prominently in the business lexicon for a long time. You have only to think of *Relationship Selling*, *Relationship Marketing* and, most conspicuously, *Customer Relationship Management*. At first sight it may appear, therefore, that talk of an emerging *Relationship Economy* is just pouring old wine into new bottles. But, no. This is different, and radically so. The following trends lead us to think this way:

Trend 1: the commoditisation of experience

The R in CRM may originally have been intended to mean something approaching real human relationship. Or perhaps it was always a euphemism. Either way, in the hands of IT vendors and management consultants it rapidly became a commoditised database function.

Customer Experience Management (CEM) then came to the fore as a claimed means to differentiate one offering or brand from another. And as with the R in CRM, so it is with the E in CEM – commoditisation. The focus of companies' investment is now less a concern for the customers' experience and more a concern for managing increasing levels of digital interconnectedness across the customer journey. This means that experience is being used in the objective sense of the word, where the customer is assumed only to be concerned with smooth and effortless acquisition of whatever is on offer.

Examples of the commoditisation: Omni-channel and Single View of Customer platforms; Recommendation engines; Digital Customer Care; Big Data Analytics Engines, Systems of Engagement

Trend 2: The great split

This was not what was originally intended. Customer experience management was supposed to be a subjective concern, where value accrued to a customer is returned to the supplying enterprise through increased lifetime spend, loyalty, innovation and market differentiation: the ‘value of time well spent’ to quote Pine and Gilmore¹.

However, the divergence is not necessarily a bad thing. Commoditisation triggered the search for new sources of value, and that got people thinking about how relationships might evolve.

Examples: market confusion over the definition of customer experience, various KPI approaches to resource allocation: NPS, CES, big data analytics

Trend 3: New sources of value

The context is everything: cloud-API technology is now leading to an exponential increase in interconnectedness between the firm and other stakeholders that goes beyond the confines of the customer journey and *is enabling interconnectedness to firm systems themselves*.

This is surfacing new opportunities for customer value creation and enabling a power shift in favour of customer choice: especially when your competitors are just a click away or self-service is preferable to phoning a contact centre.

Examples of opportunity include:

- The creation of digital ecosystems of vendors to co-create value around mobility apps
- The identification of Opex reduction opportunities through the connected supply chain (stakeholder experience)
- The enablement of ‘the working customer’, where operations and customer services are opened up to customer control
- Concierge services such as Alexa which require the enablement of a connected data lake
- The use of planned relational interactions to better identify ‘next best topic’ and further augment and interpret AI activity

In all of these cases, the uni-directionality of the Experience Economy is being replaced by the bi-directionality of the Relationship Economy. The Experience Economy focused on 1-to-1 engagement with the customer who was viewed as a resource; the Relationship Economy focuses on many-to-1 engagement where the customer is potentially an asset (value in relationship).

This is why we label the new, more subjective paradigm the Relationship Economy: a concern for a dynamic, ongoing basis of working with customers and other stakeholders is, by definition, a concern for the quality of relationship.

Examples: co-creation platforms, social networks, blockchain technology, Cloud-API, We economy, hyper personalisation, micro segmentation, Systems of Intelligence, concierge technology such as Alexa, relationship focused AI and chatbots

Trend 4: Recognition of the relationship difference

Our understanding of relational intelligence has come a long way since the days of CRM. We now understand that it offers a separate source of value to service quality: one that can only ever be negotiated.

Critically, we now know that a focus on service or experience is not, in and of itself, sufficient to develop a real relationship with customers, and other stakeholders. For example, in relationship terms:

1. Loyalty is a process not an outcome
2. Emotional engagement is not a necessity all of the time – sometimes, as in any relationship, we just want quiet time. Cognition is important too
3. Touchpoints are in fact frequently ‘black box encounters’, a staff encounter is a relationship between two people
4. The brand is not delivered
5. Goodwill (i.e. willingness to co-create) indicates an ‘engaged and activated’ customer. It is a crucial indicator for the development of trust and loyalty

6. Relationship emerges over time and is frequently complex, requiring dialogue and an understanding of how we reflect on experience and service (meta-cognition)
7. Relationship dialogue opens a mine of new opportunities for value creation

Examples: Sir Meta Intelligence, co-creation, Cynefin, complex adaptive systems.

Our findings are summarised in Exhibit 1.

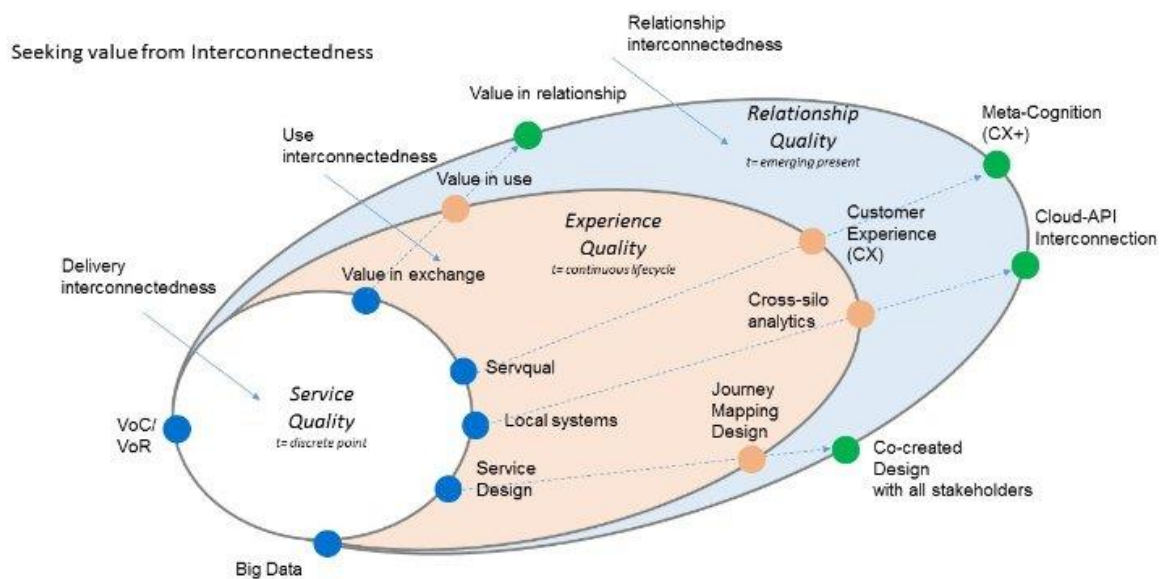


Exhibit 1: from Service Quality to Experience Quality to Relationship Quality

In sum, the ultimate driver of the economy is the level of interconnectedness. This defines the space within which firms operate and surface value, and explains why relational interactions are the new currency, delivered by KPIs such as Goodwill and narrative metrics, as well as through the management of an innovation pipeline.

Managing the Relationship Economy

To achieve advantage in the Relationship Economy, what are the practical tools for surfacing the Many-to-1 and ultimately Many-to-Many benefits of value in relationship?

The fundamental starting points are:

1. Moving from voice of the customer (VoC) to voice of the relationship (VoR). Enabling dialogue at the right moments, rather than just surveys. Looking through customer journeys to establish and develop points of interaction that turn touchpoints into service encounters. This may use, for example, AI technology and contact centre scripts.
2. Embedding and building out co-creation platforms that engage all stakeholders. A platform enables the essential bi-directional communication. Companies such as Hitachi are already bringing multiple stakeholders into their Smart City ecosystem, likewise CEMEX with their CEMEX GO! Digital App. In all cases, a central point of management is required to surface the right conversations, enable an innovation pipeline and contain any IP issues between stakeholders.
3. Engaging in sense-makingⁱⁱ: as part of VoR, enterprises need to enable the natural dialogue of customers in their data analytics models. We suggest using leading edge 'narrative methods' and frameworks to understand 'the on-goingness' of the customer, employee and other stakeholder relationships with the firm: i.e., methods that enable us to answer the question 'Where do we go from here?' After all, which is better, to spend \$2 million on a single view of the customer platform with limited and over-sold ROI or considerably less on engaging the customer in a dialogue to co-create value?
4. Using Cynefinⁱⁱⁱ as a framework. In the Relationship Economy, those who can manage for relationship will win. However, 'experience' and 'service' remain relevant. So there is the need to use a framework like Cynefin that can identify the system in which we are competing, and the actions we need to choose.

All of this points to the fact that a fundamental basis of Relationship Economy best practice is a co-creation platform to orchestrate the many players involved.

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Co-creation platforms and innovation consultancy

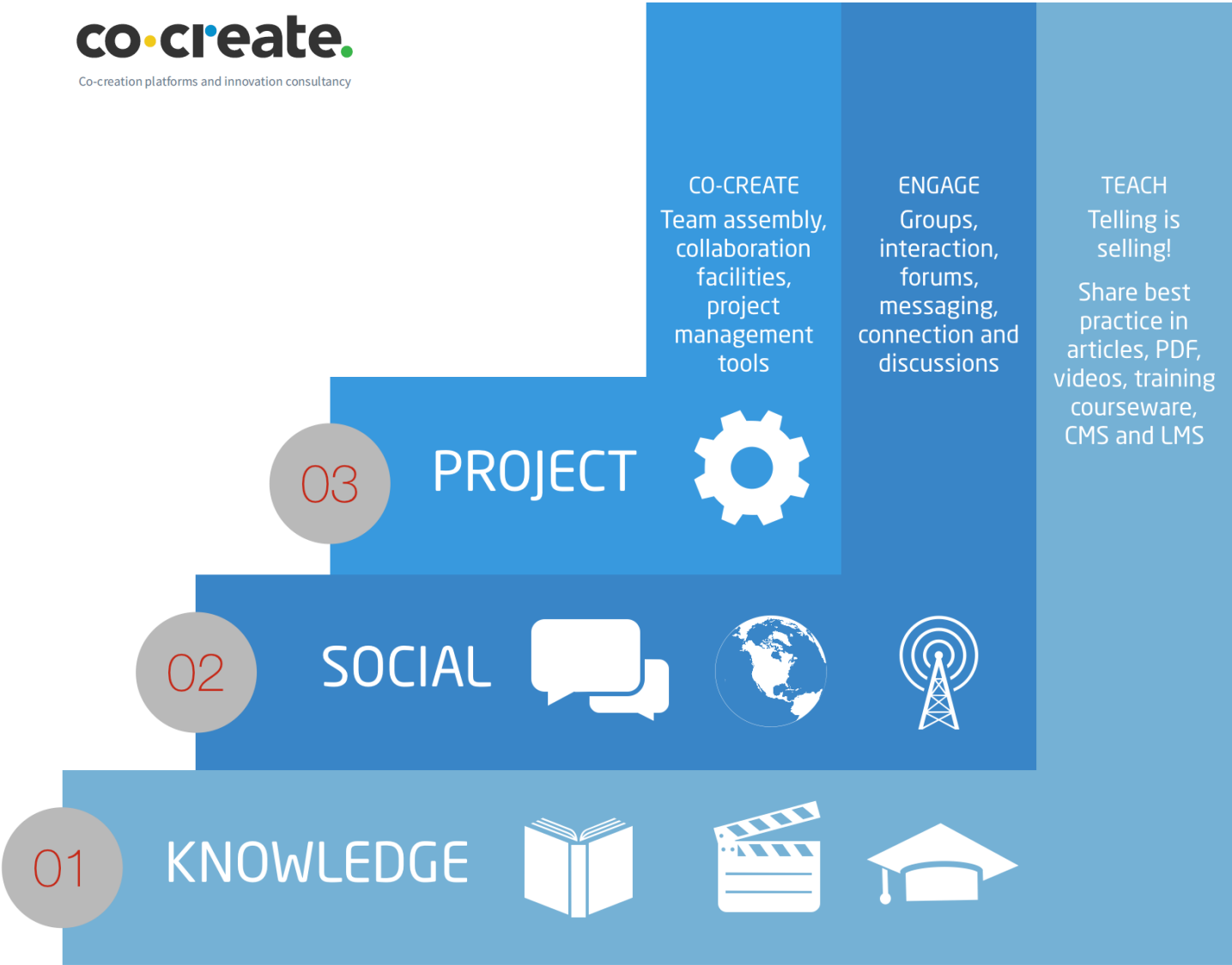


Exhibit 2: sample elements of a co-creation platform

- Platforms enable participative relationships, and broker resources and needs, coordinating participants by collecting and analysing data
- Platforms enable instances. They coordinate, integrate and mediate. They provide a structure and system which makes it easy, safe and reliable for participants to interact
- Platforms create value by coordinating all internal and external resources
- Platforms provide a cost-efficient means to help companies unleash innovation
- Platforms enable all of the above to be powerfully linked to and deployed in Sales activities.

Where are we? This looks like a new planet.

It is. We have moved from a world of mass production (the Product Economy) through a more discriminating and joined-up world concerned with productivity (the Experience Economy) to the truly complex, more interconnected and more interactive world of individual ideas and opportunities (the Relationship Economy).

It all leads to an irresistible conclusion: the customer must now be involved in the product or service development process. That can only really happen when there are meaningful relationships with customers, and other stakeholders. The optimum way to bring that about is via a co-creative platform.

ⁱ The Experience Economy, B. Joseph Pine II & James H. Gilmore, Harvard Business Review Press (2011)

ⁱⁱ See the Cynefin Framework. Developed by Dave Snowden, it is a sense-making model that allows sense to be made of any given situation. cognitive-edge.com

ⁱⁱⁱ ibid

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