

# Strategically Pay Your Customers for Their Productivity

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## *Abstract*

*Your customers want to work for you. They are willing to help you with everything from innovation to generating additional revenue. The question is how. From 1,723 articles on co-creation, we extracted the six ways customers help firms, and the ways firms strategically compensate customers for their productivity. The insights give executives and entrepreneurs a powerful tool for extending the reach and improving the competitiveness of organizations in industrial and consumer settings.*

## **Introduction**

Just over 100 years ago, Clarence Saunders launched Piggly Wiggly in Memphis, Tennessee. The grocery store was the first to offer customer self-service. Prior to the opening of Piggly Wiggly in 1916, food shoppers around the world produced a list of desired goods at the front counter of the store and a clerk assembled the order in the back. Enabling customers to choose their own groceries, Piggly Wiggly cut labor costs and enhanced customer experience at the same time. The firm passed savings on to customers, pricing groceries at just 14% over manufacturer cost. Today, Piggly Wiggly operates

more than 530 stores across 17 US states. Self-service grocery stores are the norm. And co-creation with customers is finally a popular idea.

Starting with Saunders, we found hundreds of real-world situations in which customers are compensated by firms for their productivity. However, to drive effective collaboration, executives and entrepreneurs need to figure out how to engage and compensate their customers. For this purpose, we searched for every article written in English on co-creation between 2000-2017, and identify the different ways to reward customers for their participation. We started with 1,723 articles in 60 different publications,<sup>1</sup> and boil what we learned down to six different ways customers provide value to firms, and how firms compensate their customers.

### Innovation

Crowdsourcing and open innovation are popular topics on their own. As customers use offerings, they provide ideas, methods and designs for future enhancements. Threadless, a service offering user-designed apparel and home décor, gives its users a variety of choices on how they are compensated for providing innovation. For some users, the pleasure of getting what they want or seeing their design realized in physical form is enough. But designers submitting their ideas can also enter contests for cash prizes, claim a percent of sales which use their design, or even set up their own shops on Threadless. To encourage more product innovation, a wide variety of firms post challenges on Innocentive with cash awards that can exceed a million dollars available to the network of more than 250,000 innovative solvers.

**Figure 1.** Six ways your customers want to work for you



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**Table 1.** Summary of the six ways your customers want to work for you and how to compensate them

	Value from Customer	Compensation from Firm	Additional Example
<b>Innovation</b>	Provide ideas, methods and designs for novel offerings and brands	Customized products or direct financial rewards	Audi Virtual Lab engaged customers to co-develop the Audi in-car multimedia system – Audi provided logo apparel
<b>Attention</b>	Access to customer or data regarding demographics and usage	Free or discounted offering	LEGO Factory sold creations built virtually by customer builders who achieved recognition for sharing designs that became popular
<b>Additional Revenue</b>	Promotion of new, add-on or enhanced offerings to new or existing customers	Paid referral programs, discounted subscriptions or bundles	The Four Seasons in Hawaii charged premium rates for its exclusive 25th anniversary celebrations. Customers and employees co-created a time capsule, to be reopened at the 50th anniversary event
<b>Knowledge</b>	Distinctive information, ideas and customer insights	Paid surveys or individual recognition	IBM Galaxy project provides “badges” to customers working on a steering committee
<b>Quality</b>	Customer usage builds network, attractiveness, or aids recovery from failure	Recognition or discounted fees	Guinness works with customers (rewarded with free beer) to formulate delivery of the ‘Perfect Pint’, resulting in the famous ‘two-part pour’
<b>Effort</b>	Time and labor that cuts operational costs from marketing to manufacturing	Discounts, free products or loyalty programs	Intel offers “bounties” to users who find and report bugs (flaws) in their products, with financial rewards from \$500 to \$30,000.

### Attention

It is not the benevolence of Google which allows you to search the Internet for free. Google sells your attention to advertisers. This idea has been around since the free newspaper and generally requires three parties consisting of a consumer (often rewarded with a free service), a marketer, and a service that connects the two. The model is moving quickly into B2B, as Farmobile shows. The company sells internet of things (IoT) chips which

gather data from farm equipment to help increase yield and efficiency. But Farmobile also gives farmers an option of making money selling their data to suppliers and manufacturers eager to promote or innovate products.

### **Additional Revenue**

Firms generate greater revenue from co-creative customers than transactional customers. The rewards to co-creative customers working with the firm are sometimes less obvious when the firm promotes discounted new, add-on or enhanced offerings. But the clearest examples come from initiatives where firms provide cash compensation for references to new customers. AT&T offers existing customers up to \$575 a year for references which generate new user subscriptions. But cash is not the only form of rewards. The website ReferralCandy.com provides examples of more than 20 different forms of rewards, ranging from gifts to credits, to customers who help firms generate additional revenue.

### **Knowledge**

Customers share unique information, insights and expertise firms need. The benefits from knowledge range from providing new managerial insights to building a stronger connection between customer and firm. Research highlights that knowledge-based relationships with customers are some of the most difficult to manage, yet some of the most valuable. The simplest examples are evident when firms pay customers to share knowledge through surveys. But the more interactive approaches go further. Anyone who has purchased an item on Amazon.com knows the value of the user-generated product information at the bottom of the page. Amazon works to reward frequent contributors with recognition for sharing their knowledge, while in another example, Reddit works to “gamify” knowledge sharing through upvotes and downvotes. In general, our observation is the more valuable the knowledge, the more likely it is that firms will compensate customers tacitly instead of financially.

### **Quality**

Through their usage, customers enhance the quality of existing offerings. This can occur when one user’s participation enhances the offering for other users, when participation signals success, or when usage aids recovery from failure. This form of customer contribution highlights the importance of engagement, whether as a game player who provides improved quality through a larger network or as a medical patient who increases offering quality for themselves directly. This category has grown exponentially in recent years, because online services from Facebook to eBay rely on users to

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generate quality content which make the service useful. Facebook bestows status on 'top fans' by a badge identifying anyone with more than 10,000 followers, while eBay provides discounted fees to 'top rated' sellers.

### **Effort**

Value is co-created by customers through their own application of time and labor, enabling firms to cut operational costs. While Clarence Saunders put his customers to work selecting groceries, this category offers a broad range of other examples. IKEA offers Scandinavian furniture at discount prices because their customers supply the time, effort and tools to build their bookshelves. Customer effort can also reduce firm marketing costs as consumers generate positive word-of-mouth. Rewards to customers that promote the firm are more likely to come in the form of free products (Under Armour or Girlfriend Collective) or loyalty/rewards programs (Starbucks or Sephora), than in direct financial compensation. Across these examples, existing work highlights the need for firms to formally support customers in the provision of effort.

### **The new value proposition is bi-directional**

We were surprised to see how many different ways customers want to work with firms, and how many different ways firms have found to both engage those customers and compensate them.

The variety allows for a set of managerial actions addressing the following situations:

- Digitalization or external shock (like a pandemic, a financial crisis, a shortage of scarce resources) forces you to redesign your business model.
- Your margin is under pressure and customers demand lower prices.
- Your churn rate is eating away your profits and you need to find sustainable ways to keep customers loyal.
- Your value proposition is too generic and lacks clear differentiation.
- Your growth strategy is at risk because your firm lacks critical resources.
- Your ecological footprint can be improved by helping customers to be more productive.

In any of these situations, we encourage leaders to systematically rethink their value proposition and the corresponding price points. We recommend to start with visualizing the current business model and clearly articulating which challenge has to be addressed. Applying any of the six productivity modes by customers shown in Figure 1 and detailed in Table 1 has the potential to transform the firm's business model.<sup>2</sup>

### Authors

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### **Endnotes**

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2. Amit, R., & Zott, C. (2012). Creating value through business model innovation. *Sloan Management Review*, 53(5), 50-59.