

THAT MAKES CENTS



Season 4 Episode 6 How brands can build customer loyalty

Host: Bobby Stephens, Host & Deloitte Consulting Principal

Guests: Rob Pace, Founder & CEO of HundredX

Bobby Stephens: Hi everybody, I'm Bobby Stephens. Welcome, or welcome back, to That Makes Cents. This is the podcast where we break down consumer industry trends to explore their impact on the market and on all of us as consumers. Consumer loyalty has been an extremely hot topic for a couple years now. For instance, we all saw it in the spotlight at major industry events such as the NRF Big Show in New York and CES in Vegas. As we continue to consider the future of consumer, we've been grappling with what the exact definition of loyalty is and how brands can drive it and not just hope for it. Today we're going to be talking about loyalty and adding in some additional uncertainty, including market volatility and cost pressures. So let's learn a little bit more about how companies can leverage consumer feedback and data

to improve products, services, and the overall experience on this track towards increasing loyalty.

I'm happy to have joining us today, Rob Pace, the founder and CEO of HundredX, a company that specializes in collecting and analyzing customer feedback through nonprofit organization supporters, making the process beneficial for both businesses and consumer.

Rob, thanks for joining me.

Rob Pace: Thank you, Bobby.

Bobby Stephens: Now, before we get started, can you just give the audience a quick intro and a brief background on who you are and why you founded HundredX?

Rob Pace: Sure. I'll go way back to the start. I'm from Bonneville, Oregon, a town of 60 people. But professionally, I was one of the original Goldman Sachs partners prior to it going public and spent over two decades there. After Goldman, I had the honor to be the national chair of the Salvation Army. And really founded HundredX to try to blend. We talk often about having the aspiration of a for-profit but the heart of a nonprofit, as you referenced.

And so the business problem we're solving is very much central to your focus on loyalty, which is that the outcome for the customer was underrepresented in both how companies are valued and how they're led. And so we set about to try to figure out how we could create new data sets that might change that.

And then on the personal front, as you referenced, we have a very unique model that 100% of our cost of goods sold goes to charity. So for me it was all about a blend and how could I use the two experiences and try to create something that was very unique, use data for good, but also serve business clients in a different way.

Bobby Stephens: It's great to have you here. I'm very excited for our listeners and myself to learn more. One thing I don't know, and I think would be interesting to learn, is how did you pick the name HundredX?

Rob Pace: Yeah, great question. So the name HundredX it's an illustration that if a farmer plants the right seed into the right soil they can produce a crop 100 times greater. And so, as I thought about what the second act in my life would be, I wanted to think about what could I do that could have the most impact, that 100X, and came to the conclusion that this unique blend that we had could do good in the business world and good in the nonprofit. So that's the genesis of the name.

Bobby Stephens: Awesome. So let's get into that loyalty topic you mentioned earlier,

and that tie to the consumer industry has honestly been a pretty hot topic for a while. One of the particular interesting sort of sub topics I've been seeing coming out of that is a conversation on whether or not there is some correlation, either positive or negative, between the uncertainty we see in the market and strength of customers' loyalty to brand. Can you talk a little bit about HundredX's data collection model, how it differs from typical collection methods, and maybe how this might be able to reflect that customer shift?

Rob Pace: Yeah, and I would say that customer experience, it's critical and foundational, but it has been under-emphasized in terms of business decisions because it has been squishy; it's been viewed as soft data and not tied to future financial performance. And that's really what we're trying to address.

So the question is, how do you get real consumers—who aren't paid panelists or the loud voices on social media—how do you get those people to give you the insights on what brands matter to them? And importantly, are they going to stick with them or not, and therefore what their future sales are going to be? And that's

the bridge we've been able to connect. So to answer your question, we've actually had to rethink how survey works in three important dimensions.

So first of all, how do we get people to do this, in a world where we're all survey over-surveyed? Here's how it works, Bobby. Nonprofits—and now we work with over 2,500 highly diverse nonprofits around the country—they go out to their supporters and say, hey, there's this crazy company HundredX that's going to fund our new band room or a new medical researcher, or whatever the charity is, and we work very hard to get the full census and the full mosaic represented, and we do it on a continuous basis.

And what that charity or nonprofit does is they say, OK, I need you all to sign up and over a 30-day window (because people get burned out), over a 30-day window, there's 4,000 brands. You pick the brands that you've actually used, give feedback, and for every piece of feedback, HundredX will pay us up to \$2 for that. So if you gave 50 pieces of feedback for your kids' school, or band room expansion, you'd raise \$100, and if a thousand people signed up, we'd write them a check for \$100,000.



What we get are nontraditional survey takers from every walk of life who are telling us the brands that matter. So the first thing is, how do we get people and what the motivation is—and we get a very high percentage of people, sometimes close to 90%. Whereas, you know, from the loyalty world [laughs], often market researchers are accessing it, you know, single digits!

The second thing is, that's very different, in most surveys, the survey leader is asking you to answer the questions they have. We say, what brands do you want to talk about? So the consumer picks the brands, the consumer drives. And who they skip, Bobby, is as interesting as who they don't.

And then lastly, much like that, we say, what do you care about? So we don't presuppose what they care about. So, that's why we call what we do listening as opposed to surveying, because the consumer picks the brands, the consumer says what's important, they give us their view across their whole wallet. And then our job was to connect that to future financial performance, which we've been able to do, which was kind of the key breakthrough.

Bobby Stephens: Well, it's a really cool angle, not only the giving angle, but how you collect the data, how you allow the survey takers to pick both who they want to talk about and what they care about. Which I think is really cool and allows that to be utilized in many ways as well, which I think is really, really fascinating.

So one topic I do want to dive into is the sort of impact of recent or not so recent economic pressure on loyalty. For example, many of my clients are trying to really frequently engage the value-seeking consumer to stay top of mind, right? Especially as those people are becoming more and more strained, buying the nondiscretionary necessities on their tighter budget. So are you noticing, or are there any trends you're noticing, that have had an impact on demand and might likely even have an impact on things like pricing strategies to go after this part of the market?

Rob Pace: Yeah, absolutely. And what we've discovered—20 million data points in—is the real thing to think about is what job is the customer hiring them to do and are they the best alternative? And what's happening when, in an uncertain environment or one where people's budgets are constrained, the human mind is fascinating. Basically, the equation is that a person, a consumer, has a number of constraints: how much money they have, time, convenience, their identity, etc. and then they have to put together a basket. And what they're constantly doing is optimizing that, thinking about kind of their core needs, and then what do they have—affordable money.

So, then the natural question is, so what? So the key to "so what?" is, what job is the customer hiring you to do? And that's why listening and understanding what they really care about and what they don't care about is so critical. So the first thing your clients need to do is become great listeners, not surveyors. The second thing is we went back and studied pricing power. So whether it might be pricing shocks or just inflation, etc., or the consumer, if we have a downdraft in the economy. And what we discovered is there is a group of consumers where price is the only thing that matters. They have a finite budget; they're not able to make trade-offs. But really the ultimate thing is value. And price and value are not the same thing.

Value is the combination of price plus do you do those most important things better than the alternatives? Because ultimately, and to your point about pricing power, we define pricing power in a much more practical way. You know, the academics refer to sort of elasticity and demand versus price. We look at it and say, OK, if I raise prices, am I still going to be my customers' best option? Including they don't have to buy some categories.

Bobby Stephens: And in your data, you're able to see customers or the surveyors sort of say, hey, I really care about value, I really care about price versus other things.

Correct? Could you just elaborate on that a little bit?

Rob Pace: Yeah, absolutely. So we have—I never thought I'd be the "happy face" emoji person—I was actually a mathematician! But when you're a participant, you go through, and let's say you pick a leading restaurant and then your first set of questions is, what do you like about it? And you could be taking price, quality in a restaurant—taste, value, etc., anything. And then the service aspects. So you go through there and you select what you like about it and don't like about it, etc. And then you also skip what you don't care about. That ability to skip is how we replicate listening.

Now what we've learned is that, on average, the consumer has three positive things they select and one thing that drives them nuts. And if you understand that in your business, that's what you need to be laser focused on, is understanding what those things are. And you only get it through listening. One of my favorite examples is, if you think about the industry is, 5G was going to be ubiquitous and everywhere. And yet, in our data, as that was rolling out, people just weren't selecting the 5G emoji, right? It wasn't good or bad; it just wasn't there. There was no killer app.

So what you need to do as a business is find a way to listen, not survey. And if you understand the most important things, then it's simply a matter of finding the price that basically creates that value optimization.

Bobby Stephens: It's interesting, the three good and one bad. I didn't imagine that consumers were overall optimists out there. So that's heartening a little bit.

Rob Pace: Well, if you think about it, you wouldn't be their choice if it was a lot of bad.

Bobby Stephens: Yeah, that's true.

Rob Pace: Because they're picking the



brand. By definition, you're on the playing field. But to your point about loyalty, the goal of loyalty is not to have a leaky bucket, right?

Bobby Stephens: Yep.

Rob Pace: And so our whole thing is, in the stock market, you can evaluate who the winners and losers are, the most important thing is to understand who's a leaky bucket. So your topic of loyalty, I think is going to quickly become foundational to how companies are valued. And that I think is going to be the game changer in terms of getting the spotlight on loyalty even more than it's been historically.

Bobby Stephens: Yeah, this conversation really kind of reinforces to me... Say you have a loyalty program or you understand you have loyal customers, listening to them and not getting too, you know, patting yourself too hard on the back for what they like about you versus listening to the few things that you could fix. And if you do a little bit to help them get over that bridge, they become loyal to you for

another, you know, X period of time, which is huge benefit, and obviously we all know is a much more efficient way to build a customer base—to keep the people in there versus having to replenish them all the time.

Rob Pace: Yeah. And I think the other thing is you being the best value is relative to what? So if you can't figure out what's going on with your competitors, it's not just how you're doing; it's a relative game. How do you get rid of those blind spots?

Bobby Stephens: Yep.

Rob Pace: Right. Particularly in an environment of extreme uncertainty. If we all look back and say this decade... It's just going to be the unrelenting pace of change. And so, how do you retain people? How do you have that loyalty? And you have to listen. You have to understand your value proposition relative to their options.

Bobby Stephens: Yep. Share of wallet. No one has a monopoly, and there's really

convenient alternatives around every turn. So, to your point, how you maximize that relationship is huge for most brands.

Rob Pace: Yep.

Bobby Stephens: You know, we're not at the end yet, but we are nearing the end of a pretty interesting conversation here and so I'd like to maybe hit on one other item that caught my ear earlier. Sort of builds on that, I think you said, "aspiration of a for-profit but heart of a nonprofit," if I heard you correctly. Which is that HundredX is predicated on the idea that collecting feedback can also be beneficial to society by creating opportunities to accelerate or match giving to nonprofit organizations. Can you just talk a little bit more about what motivated you to include this? How investors originally [laughs] sort of thought about that idea, and just what kind of impact that you guys are having so far and what you envision having over the long term?

Rob Pace: Yeah, so I'll flip the order of your question in terms of the answer.

Bobby Stephens: Sure. You're the boss! [laughs]

Rob Pace: No, no, I'm not. The big breakthrough for us is when we could demonstrate that our data... And the key question that we ask is not would you recommend it to a friend? Or sentiment. It's actually, are you going to buy more or less of this in the future? So future purchase intent, and future purchase intent for you versus the competitor. So, we were able to show that that was a leading indicator of sales and market performance two to three quarters in the future. And so we've been able to demonstrate a kind of new sort of headlights, if you will, that allows you to see a little bit further and therefore you can react.

Once that happens and then once the scorecard of business starts to be more about customer loyalty, which is what excites us, that's the game changer because then organizations will start to reorganize around customer outcomes at the center of how they look at everything.

Unfortunately, the prior scorecard, the finish line of business was the sale. That was the yardstick because there wasn't a good yardstick for this future leading indicator. The ability to create those headlights, we think we can change the scorecard.

Now, why is that such a big deal, to answer the first part of your question. We have three goals from our mission. Number one, we want to provide a lot of money to nonprofits. So give money to nonprofits.

The second thing is, 41% of our feedback comes from diverse consumers. We also do a good job with consumers who don't make a lot of money because they can participate on our programs without writing a check. And I think the reality is that currently there's an over-indexing on a certain group of customer who has a little more of a seat at the table. So that's the second thing.

And the third thing, and maybe the biggest, is how do we get capital markets, which have tremendous power to do good, to be focused on the customer outcome? Because if you think that through, that will lead to longer-term decision-making versus short-term profit maximization. And also if we help companies make better products, that's a big deal just in and of itself. So those are the three things, as we think about the heart of the nonprofits part of our thing, that we get up every day and animates me.

Bobby Stephens: That's really cool.

I mean, obviously it's inspiring a bit, and even the part that you mentioned about the future purchase intent being a leading indicator two to three quarters out—that's heartening because that's actually time to do something about it. You find out what happened in the past, or you find about you said "a leaky bucket," right? If there's a huge hole in it, there's nothing you can do about it. If it's just a little bit of a leak, you actually can get things—if you're willing to believe the data and move on it. Even as a large company, you can fix that, and/or if you see a big opportunity, you can capitalize on said opportunity and drive even more penetration or grab market share or what have you.

So I think that that's really, really fascinating. For me, in the business I'm in, to understand that there's things that I could take to my clients to say, if you do something about this right now, second half of this fiscal year, you're going to see some uptick, which is huge.

Rob Pace: Yeah, you're not doomed to that fate. And so if you can see it, exactly! As you said, if there's an obstacle in the road, you can go around it.

Bobby Stephens: Yeah.

Rob Pace: And so that's the goal. And I would also say the other thing that companies struggle with is they just don't see the inflections until it's too late.

Bobby Stephens: Yeah.

Rob Pace: They have pretty good processes for business as usual, but they often miss the inflections because they kind of have a well-worn path of doing things.

Bobby Stephens: Well, yeah, it's almost the Goldilocks, right? Like, something that's happening right now, it's hard to do anything about other than be reactive. And things that are three or five years out, you want to talk about them, but you're sort of just... it's a little more academic. That six to nine months away, that's a pretty important time frame. Even you're sitting there, you're probably in the same—you're going to have the same role six months from now at the company. You're in the same fiscal year. That's a good time horizon for that. So it's great.

Well, I really did enjoy spending some time talking about loyalty and making the connection to how the HundredX platform really measures customer experience—tries to make it hard data, instead of soft data—and satisfaction. And it was honestly just super timely to discuss value-seeking consumers and how today's pressures are impacting their potential loyalty to brands. So thanks for that, Rob. I really appreciate it.

Rob Pace: Yeah. Thank you, Bobby.

Bobby Stephens: Listeners, also thank you for joining us on this quick ride. It's a great topic and it's, of course, a topic I really love, given that I get to lead Deloitte Consulting's US loyalty practice. But don't forget to subscribe so you don't miss out on this episode and all our episodes, and take a look at our episode description for more content. So until then, keep making sense of your world. This is Bobby Stephens. Stay safe. Take care.

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