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Utilizing the access value of customers

Puqing Lai

Ronald Coase Center of the Study of the Economy, & China Academy of West Region Development, 15th Floor, CAWD Building, Zijingang Campus, Zhejiang University, 310058, China

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Abstract Customers are critical resources for the success of any business, not only because they bring in sales and profits directly, but also because of their access value in a world that is becoming increasingly interconnected. However, the mechanisms by which the customer access value may be exploited and the implication for management has not been well understood. *Access value* can be defined as the worth of utilizing patrons for further marketing and sales of value-added or third party products. The access value, which mainly results from the aggregation of the customer base and customer data, is essentially a corporation's internalized asset. This article shows that the size of the customer base and the extent of engagement have a significant impact on the customer access value. To develop and gain the benefits of customer access value, traditional business models often need to be transformed: firms and platforms should provide free or subsidized products to attract people and then embed value-added products to make money. The success of the new business model depends on not only the right pricing and product strategies, but also an embedding strategy.

1. A new kind of customer value

Customers have been viewed as critical resources for the success of any business due to their intrinsic value and their network value (Domingos & Richardson, 2001). The *intrinsic value* is the expected profit from sales to patrons. The *network value* is the expected profit from sales to others through the influence of current customers. However, if you simply stick to the intrinsic and network value, you are missing an important element of your business: the *access value*—the worth of utilizing clients for further marketing and sales of value-added or third party products.

For instance, the Chinese antivirus industry was profitable by exploiting customers' intrinsic value—that is, selling paid antivirus software and services—for over a decade. Among the companies in the industry, Rising Antivirus retained the largest market share since 2001, with about 80 million users by December 2008. However, Rising Antivirus was too content with its rich return from sales of paid antivirus software and therefore ignored the access

E-mail address: pqlai@zju.edu.cn

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value it had to millions of its patrons. Inevitably, this unrealized worth of a very large customer base invited an outside attack. As expected, in October 2009, Qihoo 360 introduced permanent, free antivirus software into the market. Qihoo 360 rapidly captured a record 63.5% of the market share with 248 million active users by January 2011. Focusing on the access value of the user base, Qihoo 360 made $167 million in revenue in the financial year 2011, mainly from online advertising and Internet value-added services. And in March 2011, Qihoo 360 became a NYSE-listed company with a strong debut. During the same period, Rising Antivirus declined in the Chinese antivirus market, and finally gave up its paid antivirus policy.

In many cases, customer access value is not one of the customer value dimensions, but its importance can be overwhelming and result in vast profits. A good example is Google Search. Each day, Google serves hundreds of millions of search users at no charge; Google has actually made little money from the intrinsic or network value of its viewers. However, by utilizing the customer access value of its large-scale user base, Google has made vast profits from advertising and other value-added services, with earnings of $7.42 billion in 2010 and $8.363 billion in 2011.

In today's Internet economy, utilizing the access value of online customers is fairly prevalent. Social network sites like Facebook, MySpace, and Twitter provide networking platforms for millions of people to build social connections. These networking platforms have served as powerful devices for accessing large populations, and are often controlled by platform providers which have made huge earnings in recent years by placing advertisements or selling value-added applications. Customer access value can also come from traditional off-line industries. For example, television stations provide not only direct products such as news reports and TV programs to the audience, but also indirect products (viewers) to advertisers. Actually, even a small grocery store can have and use its own customer access value. A shrewd storekeeper may try to find opportunities to earn extra revenue by capitalizing on his clientele. The simplest way is to display third-party advertisements: light box advertising, shop window advertising, stand and show card advertising, and so forth. A more complex method is to link several partnering stores that increase business and do sales promotion for one another; a store can offer some featured patrons with partnering stores' coupons and get a proportional return on the sales made based on the coupons used. This type of marketing scheme, by the way, could develop into a specialized business strategy in the future. Additionally, customer access value can come from non-economic activities. Entertainment and sports stars often have vast commercial influence; they attract a great number of fans and followers. A conference, a tour site, or even a social event may also bring about substantial access value that can be exploited for commercial use. In summary, the customer access value and its utilization are indeed widespread in our everyday lives.

Utilizing customer access value often requires the development of two or more interacting markets. First of all, there is the market for free or subsidized products that attract and create customer bases. Second, there is the market for money-making products, through which the access value of the former might be monetized. From a backward point of view, economists label this specific market structure as *two-sided markets* (Armstrong, 2006; Caillaud & Jullien, 2003; Parker & Alstyne, 2005; Rochet & Tirole, 2003); and in the two-sided market structure, the access value of customers is considered *cross network externality* (Weyl, 2010).

In my opinion, the customer access value view gives executives a broader horizon of the businesses they are dealing with and the markets in which they are competing. The value can actually emerge from all kinds of operating businesses, not just from the special two-sided markets, since any of them will always have its own patrons and thereby customer access. Moreover, given that cross network externality could be invested and internalized by firms in many industrial practices, an entrepreneurial perspective of viewing the access value as a capital asset would be more natural and more constructive than an economist's perspective of viewing it as an externality or market failure (Rysman, 2009; Weyl, 2010). In the real world, the cross network externality is not an externality per se, but a corporation's internalized access asset.

Related to the misuse of the network externality concept, two-sided markets literature has also mixed two-sided markets based on the customer access value and two-sided products based on the cross network externality. A *two-sided product* supposes that the two sides of the product's market are strictly interdependent and both sides should play on the same board. For instance, e-commerce services need to attract both sellers and buyers; nightclubs need to attract both men and women; credit card companies need to attract both merchants and card holders. This product two-sidedness often involves only one market for goods or services, with both parties necessary. The absence or dysfunction of either side could undermine both sides and even break down the whole market, which has raised an intriguing chicken-and-egg problem (Caillaud & Jullien, 2003).