ECLICKTICK WHITE PAPER

WHAT ARE YOUR POLICIES WHEN YOUR CUSTOMERS DIE? PUTTING THE CUSTOMER FIRST, SOCIAL NETWORKING AND AVOIDING ZOMBIE MARKETING.

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Executive Summary

This white paper addresses the implications of customers dying. When a customer dies, there are both opportunities and risks. In a world where the supply of content and software exceeds the demand and usage of content and software, past policies on ownership and license transfer may no longer be optimum. Policies perceived as unfair or unnecessarily complex may drive heirs away from the usage of inherited content, platforms, software and hardware towards cloud based and open source software and subscription content.

The opportunity is to simplify the management of intellectual property assets and account relationships for the surviving partner and heirs. Successful management of this difficult and typically unaddressed problem will create goodwill, improve brand value, and potentially cement relationships with heirs. For certain product categories, the death of a customer creates an opportunity to create new services, e.g. memorializing a web site or gain new customers who might otherwise be difficult to switch.

Failing to formally address the consequences of customers dying may expose companies to litigation if rights, information or access are denied heirs or prematurely destroyed. Even worse brand value and emotional commitment to a supplier, brand or platform may be affected if heirs perceive that past licensing restrictions are onerous or unfair. With the increasing rates of death of Baby Boomers, resellers and owners of content and intellectual property may have to rethink licensing arrangements. Vendors will find in many product categories that the economics of "putting the customer first" will be more attractive than current licensing practices.

Introduction

Customers die. That fact is certain.

In 2009, 2.4 million American died (excluding infant deaths). If we assume that each death triggers asset transfers to an average of 3 people, approximately 7-8 million Americans are affected each year. Over a ten year period, roughly 25% of the US population will be affected by estate management transfers. And increasingly these estate transfers will include digital books, digital music, downloaded videos, personal web sites and software. *In a curious sense, the transfer of assets from the dead to heirs constitutes a little discussed form of social networking and product referral, one that current licensing policies are likely to make a negative experience.*

By way of example, one of the authors inherited a Kindle upon the death of his father. It has generated additional e-book purchases for Amazon. These book purchases and recommendations of the Kindle hardware might not have occurred without this triggering event. And unlike a normal purchase of a Kindle, inheriting the device and its subsequent use has positive emotional implications for the author, causing him to remember fondly discussions with his father about books.

For many people (heavy users), the value of their software, ebooks, digital music and audiobooks can add up to assets in the range of $30,000. A 2011 survey by McAfee suggest and even higher number: that on average consumers estimate that they own digital assets in total of $55,000 (http://www.businesswire.com/news/mcafee/20110927005661/en/McAfee-Reveals-Average-Internet-User-37000-Underprotected). While some of these assets represent self-created assets such as photos, hobby materials, and personal records, the amount of purchased assets is large and likely to become larger over time as digital assets become more important. In other words, digital assets are a significant enough value that people will increasingly care about their digital assets as part of their estate. We are at early stage in the adoption of ebooks and audiobooks, digital music and ereaders, so over time, people's personal libraries will grow. And unlike physical libraries which are constrained by space and bookshelves, digital libraries are less expensive to store and require less physical room.

In addition to content, hardware assets also have information components that are often troublesome to track when inherited (serial numbers, warranties, extended warranties, software licenses, purchase dates, rights to upgrade to next generation products, etc.). Hardware assets might include phones, tablets, ebook readers, netbooks, ultrabooks, laptops, desktops, game devices, PDAs or small form factor devices, wireless music systems, routers, printers, TVs, extenders, set top boxes, etc. This hardware portfolio could easily add up to $10-30,000 in addition.

If only 25% of Americans dying annually average $40,000 of software, content and hardware assets per year, the total asset transfer for this segment, based upon initial purchase price would be in the range of 600,000 X $40,000 or $2.4B per year. Assuming that the hardware has depreciated 50% in value by the time it is transferred, the inherited amount would be in the range of $2.1B. Over a ten year period, if we assume no growth in personal digital assets, the transfers would add up to $210B. This number is significant enough that it constitutes an area worth paying attention to for many companies.

Table 1: A frequent purchaser of digital software and content assets might well have significant dollars (e.g. in the $40,000 range) invested in both software and hardware.

Type of Asset	***Number***	***Average Value Per Item***	***Total Dollar Value***
Music	20,000	$1	$20,000
Ebooks	300	$10	$3,000
Audiobooks	300	$12	$3,600
Video	100	$5	$500
Software	10	$300	$3,000
Hardware devices	20	500	$10,000
Total Digital Assets			**$40,100**

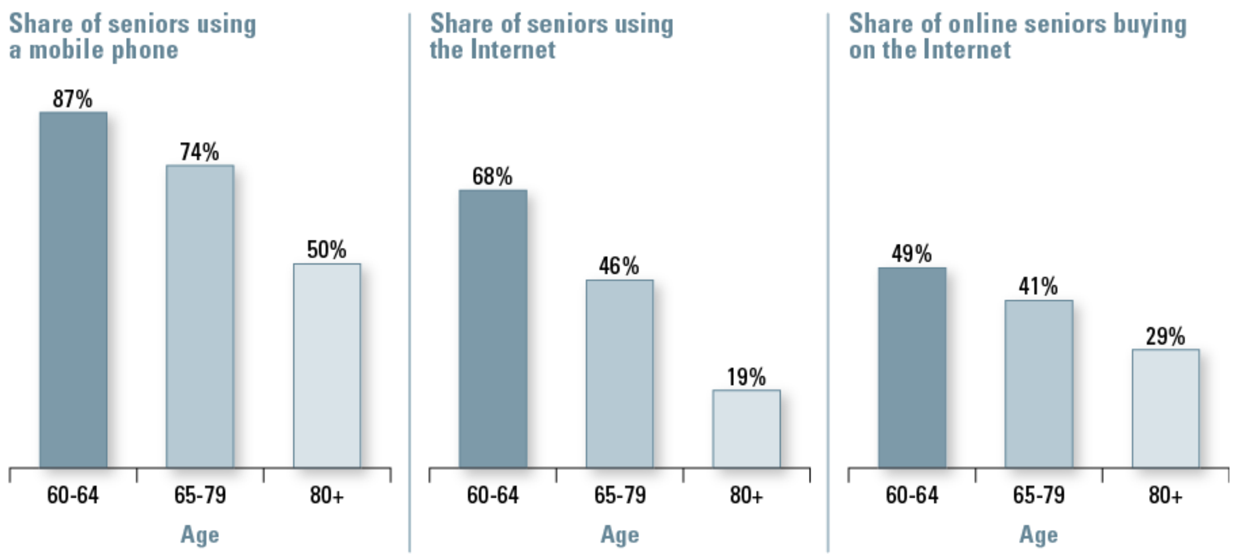
Note: the above numbers are clearly only an example. One would expect that over time, the number of pieces of content would increase over the numbers projected here. The software estimate does not include low value apps, which because of their low value need low cost transfer policies to avoid customer annoyance and irritation with platform policies.

For other users, the issue may be less the value of the digital assets transferred as the mechanics of transfer, resinstallation, or learning about the software or digital content transferred to the heirs. Metainformation about digital content, retraining of the new users, and other tasks may represent ways of creating value for companies that wish to make the experience positive.

Some may say that older consumers don't use technology and therefore, the problem of technology transfer is not important. However, a recent study by AT Kearney shows that older consumers are often enthusiastic users. Perhaps even more significant that the current percentages is the trend implied in the statistics. Today's 80+ crowd not surprisingly has a lower adoption that the younger older users. Cut over time as the younger older crowd ages, we can expect usage to match the higher adoption of the younger groups, thereby increasing the likely ownership of digital assets. And as the lower cost of digital assets becomes more obvious, budget constrained seniors will be more likely to adopt.

Figure 7

Mature consumers are not afraid of technology



Source: A.T. Kearney Global Maturing Consumer study, 2011

Your Policies

So the question is: "How do you handle the death of your customer?"

This is an important question for four reasons:

- First, as customers become older, they may choose different suppliers based upon the policies you have in place.
- Second, those that inherit the rights to an account may represent an opportunity for new business relationships or cementing existing relationships. And in some situations, the rights to reuse intellectual property may be divided up and assigned to multiple heirs, increasing the opportunity for winning relationships with new customers or cementing relationships with existing customers.
- Third, in many industries licenses and ownership provisions should include the ability to transfer rights to heirs. For example, Amazon's Audible division which provides audio books does not currently permit the consolidation of accounts for licensing reasons with content owners. Account consolidation would simplify life for users and avoid the necessity of heirs maintaining the deceased's account for arbitrary legal policies. As the market becomes more competitive for digital books, legal rights innovation will be necessary to support value propositions and brand leadership.
- Fourth, when a customer dies, routinizing the exit, transfer or maintenance of the relationship has economic consequences. Routinizing lowers the cost, reduces any liability from loss of information or rights that an heir may claim, and may also reduce storage costs.

As people become older and more conscious of their mortality, they may also feel the need for a "Digital Rights Will" where they specify what accounts and information they wish to assign, preserve, prepay for memorial or future usage purposes, or divide between heirs. In some cases, the death of a customer will create new service opportunities as a result of customers wishing to preserve their creations, web sites, blogs, purchase history (for genealogical, tax or research purposes).

Avoiding Zombie Marketing and Advertising

Another reason for having explicit policies is to avoid zombie marketing. By zombie marketing, we mean marketing to a deceased person's account and being ignorant that the account has been taking over by an heir or zombie. The zombie owner may have different interests, preferences and represent a different opportunity for cross selling or upgrading.

The impact upon a brand is likely to be negative if a company continually forces the zombie to conceal his identity, resulting in inappropriate messaging and annoying couponing. And the necessity of maintaining multiple accounts is annoying to survivors and heirs.

Rights Review

The key insight is that the death of the customer leaves behind different types of relationships for which current licensing and service policies may be inadequate:

1. Informational
2. Usage and ownership rights
3. Communications rights
4. Warranty information

Customer informational assets

Customer informational assets may not initially appear valuable to an heir. In some cases, they may not be. But there are a number of situations where information about a deceased customer may be valuable. For example,

1. Family histories
2. Medical information that may influence the health of relatives
3. Access to usage information. "What information did grandpa use? What music did he listen to in a particular year? What books did he download?" This type of information provides material for formal and informal biographers – something we can think of as next generation genealogists and family historians.
4. Data for supporting tax filings
5. Warranty information
6. Registration keys or serial numbers for software

One would think that tracking historical purchases of software would be almost automatic for most companies. But large companies often do not take an outside-in view of the problem. Microsoft does not maintain a registration site that is accessible to consumers or provide a mail-back service for lost serial numbers. A serial number is required for validation, but without the original disks or label on the original hardware for an OEM version of the operation system, a new user is required to purchase the software a second time.

Usage and Ownership Rights

The digital world is new. Death has played a small role in the *life cycle* of customer management. But if a customer has a cloud-based relationship with a vendor, there are three possible outcomes:

First, a company can ignore the problem. Denying an heir access to intellectual property that the deceased has purchased will be seen as “value subtracting” and reduce brand value. Making it difficult to use hardware whose ownership has been transferred will detract from brand value. Maintaining the account of a deceased customer may require an heir to pretend to be the deceased individual (what we term a zombie), creating anxiety and extra work for the heir. (Consider the emotional impact of having to use a deceased parent’s or spouse’s account to access a digital book account.) Providing a migration path reduces stress and increased brand value for both the original purchaser or customer, and his/her heirs. If experiential marketing is the goal of many companies, creating a positive experience for someone mourning seems eminently desirable.

Second, a company can make it easy to transfer rights to heirs. This may include transferring or consolidating accounts, or allowing the division and transfer of specific assets. If a company does not make this easy, then the option for the heir is to maintain the account as if the deceased were still alive. Companies wishing to permit this approach need to make sure as a very minimum that a credit card change can be made to continue the account. However, this simple approach is not necessarily the most useful for an heir. It does not address the problem of multiple heirs nor provide options for purchases of perpetual services on the Internet, analogous to purchase a burial plot.

Third, the company can offer differential pricing for transferable assets vs. non-transferable assets. While this approach appears superficially attractive, it does lose the opportunity of converting heirs to customers and does leave a sour taste in the mouth of heirs. Whether reasonable or not, whether current legal rights permit, most customers have the expectation that if they or their relatives have purchased the product, they should retain the right to the product in the same way that they do with physical assets. (Consider the analogy of physical books vs. e-books.)

Communication rights

It may seem a simple problem, but when a customer dies, the surviving email account has value. Many services require access to the original account for confirmation of changes or for access. Again, there are different policies that can be put in place. A vendor needs to provide the ability to change the email account associated with the deceased’s account or the ability to consolidate with a new account.

A potential risk area is incorrect transfer of a deceased’s e-commerce account to someone who fraudulently uses the credit card of the deceased.

A good use-case therefore, might revolve around a standard package of policy changes that can be triggered by notification of death. These might include disabling of current credit card information, options for transfer or merging of the account with another account. If a merged account strategy is selected, tagging purchases with the deceased's name may be useful and convenient for customers, though no doubt requiring programming and database changes for the vendor.

Access to Usage Information

While usage information may not initially appear of value, much information about someone who has died provides historical insights into a family history, its customs and spending patterns. Even if no product ownership rights are involved, making available, for example, purchase and usage history may be of interest to the genealogists and biographers in a family, or inheritors of property rights where the date and source of the purchase has value in the initial warranty period, or perhaps, over the longer term, recording the provenance of a collectable assets. (It may be hard to think of digital assets as collectable assets, but the emergence of institutions such as the Computer History Museum demonstrates the development of such collections.)

In the software world, upgrading software obtained from someone who is now deceased may require access to the original email, a purchase date or a serial number. Companies like Adobe that provide a registration list of purchased software and services, or retailers Amazon that provide a list of historical purchases are well positioned to handle this situation, though licensing agreements may keep heirs in a "grey market" state where they must simulate being the original purchaser.

Putting the Customer and Heirs First

As a final thought, some content owners may be tempted to ignore the problem. Their rationale will be: if the customer dies, then reselling the content to the next generation or heirs represents a revenue opportunity. That may well be true, but not taking a customer-centric view of heirs runs the risk of negative viral marketing. For every customer dying, a large number of relatives may end up being alienated and brand preference may be significantly altered. This is particularly true in markets where the balance of supply and demand has changed dramatically. For example, in the early years of personal computing, there was much less choice in software. Today, there are often numerous and sometimes free alternatives that may cause difficulties in software license transfers to cause heirs to give up on the previously used software. Microsoft Office faces this threat from OpenOffice, LibreOffice and Google Documents. Adobe Photoshop in its many variants faces this threat from GIMP and bundled software sold with digital cameras that comes ready to handle RAW files easily.

The trade-off is between short term profit maximization and brand damage, or creating a deep relationship with heirs that provides continuing multi-generational loyalty. In many situations, equipment and software that has been inherited can represent a rare opportunity for easy brand switching. For example if a Canon dSLR user inherits a Nikon dSLR and lenses (or vice versa), an heir may be tempted to switch loyalties if the inherited equipment is superior, or the bequest includes better or more accessories and lenses.

Examples of licensing agreements that annoy heirs include the following:

1. E-books that cannot be resold or which are not obviously discounted to reflect the lesser resale and reuse rights.

2. Software, where the licensing agreement is not transferable resulting in a “grey market” type of usage after death or transfer.
3. Poor handling of account inheritance.
4. Inability to merge accounts or divide assets within an account with more than one person.
5. Lack of centralized record of purchases, warranties, serial numbers and keys.
6. Complex device authorization rules that become much more difficult when a person dies due to closing down of email accounts, etc.

Eclicktick Consulting Service

Eclicktick Consulting offers a review service to document the actual or absent policies in your organization. We work with you to identify

1. What actual or effective policies are in place in your organization for managing the death of a customer? How different psychographics will be affected by different transfer policies?
2. What software processes and associated policies are in place and how they might be modified in order to:
    a. Minimize legal suits from heirs
    b. Maximize perceived value to current and live customers
    c. Identify areas for renegotiating of property rights e.g. for digital content rights with source digital rights owners
3. Use the death of customers as an opportunity to cement and grow relationships with heirs.
4. Pricing and rights strategies to differentiate your offering from current or likely competitors and their policies.

Project Structure

Projects are typically structured in phases.

Phase 1 is a small diagnostic analysis of the opportunities and risks in your business model. We use a combination of business model, web site and e-commerce, and license review to document your business. A first phase project can also be done as a series of workshops in your organization to take advantage of the knowledge within the organization.

Phase 2 will involve identifying licensing changes, software changes, and account management changes necessary for smooth transfers of assets to heirs. Revenue implications or programs for testing revenue implications will also be identified.

Phase 3 will involve setting up programs to ensure that heirs are highly satisfied with the processes for transfer, division, sharing or closing of the account assets. New products and services will be identified.

Project Outcomes

What are the likely outcomes for a review of your policies? Companies and different product areas within companies will fall into different types:

1. Some companies or product areas within companies may decide that they have sufficient market power that they can ignore the problem. Their view will be that the license arrangement was known to the customer and they are not obligated to make concessions. The will assume that the legal agreement triumphs over the beliefs and conventional wisdom of buyers. For such companies, the upside is more revenues from when heirs repurchase assets that the deceased own. The downside is brand damage and loss of annoyed customers who refrain from doing business with the supplying company.
2. Other companies may decide that the value of intergenerational loyalty is so high that being perceived as customer centric is worthwhile. This will be particularly true for companies with

low market share, or platform companies, where failure to adopt a platform leads to market share loss. Family pricing programs have historically been designed for a traditional nuclear family, e.g. in mobile phone markets. These programs have been successfully extended to family and friends networks with “free” calls to a specified list. Intergenerational usage rights represent a logical extension of this network approach.

3. Some companies may attempt to turn the asset transfer into a revenue opportunity by charging for reregistering of e.g. software or ownership rights, or more constructively, using an upgrade to generate new revenues and legitimize the ownership transfer. They will be keen to minimize the upgrade policy to heirs in order to avoid creating a secondary market in used software, video, music, etc.
4. Slower reacting companies may provide a de facto acknowledgement of the transfer by permitting heirs to continue to “pretend” to be the original buyers or zombies. Strangely, this loose management approach may be the least likely to take advantage of the social networking basis of death. By not making it easy to divide up assets, platform companies in particular may miss the opportunity to create loyal users amongst a group of heirs.

How Example Products Differ in Inheritability and Transfer

Music: typically licensed with no rights to resell or redistribute. Older individuals may have a mix of ripped music and downloaded music. While the legalities are being argued over, generally speaking if the CDs or LPs are still owned, transfer is more straightforward from a legal perspective. While an heir can easily copy the deceased's library, strictly speaking the license agreement may not permit such transfer and there is some legal risk to the heir. Resellers or content vendors would run the risk of zombie marketing.

Video: DVDs, Blu-Ray DVDs and downloaded videos which have been purchased are typically easy for heirs to use. Technically, the transfer of ownership may be questioned by some content vendors, but here the benefit of transfer is actually for the original content owner. Knowing what content people own is actually valuable to the content owner.

Hardware: warranty and registration information is typically available on easily lost paperwork. Some firms encourage registration of hardware. Some states have laws that don't require registration for warranty work. Evidence of purchase data may be available from some retailers, e.g. Amazon, Fry's, but is often in a disorganized database which may require information unavailable to an heir, e.g. which phone number was the purchase registered under.

Subscription based services: the service can typically be maintained as long as the monthly fee is paid. This gives rise to the problem of having to maintain more than one subscription account with most suppliers. There are typically few easy ways of transferring playlists or library information when closing down the account. If the information is available, it may be difficult for less technical users to transfer.

Audible: no current ability to merge audiobook accounts. An heir can maintain an annual low level of subscription if credit change is permitted.

Software: most software license don't provide for resale or transfer of ownership. Unopened software may be transferred easily and is actively marketed on eBay.

Example Legal Clauses:

Apple: **"**Rights Granted**.** Upon your payment of our fees for Digital Content, we grant you a non-exclusive, non-transferable right to use the Digital Content for your personal, non-commercial, entertainment use, subject to and in accordance with the Terms of Use."

Amazon Kindle: "Limitations. Unless specifically indicated otherwise, you may not sell, rent, lease, distribute, broadcast, sublicense, or otherwise assign any rights to the Digital Content or any portion of it to any third party, and you may not remove or modify any proprietary notices or labels on the Digital Content**."**

Table 2: The Pluses and Minuses of Four Different Strategies

Company Strategy	Pluses	Minuses
Company believes it has strong market power and needs make no concessions	More revenues from heirs	Possible reduction in purchase rate due to belief that supplier is insensitive and gouging. Brand is negatively affected. Switch to alternative suppliers e.g. free or open source software, subscription services, competitor products
Company pursues relationship loyalty, platform commitment and is customer centric	High degree of loyalty Capturing new customers Sensitivity of company appreciated by heirs in a difficult emotion period Brand improved	Some loss of revenues in short term, offset by life cycle profitability of new relationships captured. Possible cannibalization if heirs are also committed to platform, though the most likely outcome in such situation is platform will be shared with a user not using the platform.
Company positions transfer as opportunity to upgrade ownership rights, quality or other attributes	Company offers fair price for ownership change and sweetens the pie by offering upgrades.	Consumers are emotional when offer is made and may be upset by opportunistic nature of offer unless value proposition is very appealing. Even if appealing, the emotional state of the users may cause them to feel exploited.
Company permits grey market (or zombie) use by heirs	Company can ignore the problem. No difficult decisions need be made.	Lost opportunity to improve brand and gain new customers. Lost opportunity for positive word of mouth. Customers needs to take extra steps to use inherited assets and this subtracts value from the relationship. Risk of zombie marketing where ineffective marketing efforts are expended on zombie account owners who actually have different preferences than the original buyer.

Authors

Alistair Davidson is an experienced strategy, business development, marketing and software consultant. He has been the CEO of several software and consulting firms, is the author of three books on strategy and technology, and a contributing editor to *Strategy and Leadership* magazine. He writes frequently on technology strategy. He has an MBA from Harvard and has taught strategy, international strategy and innovation internationally. His work experience includes working in publishing, retailing, film financing and rights management, healthcare, financial services, high tech and government. His recent work has included demand creation and program development for large international consulting firms, medical service firms, and a variety of high tech firms. Projects have also included (1) pricing strategy and execution, and (2) strategies for putting the customer first in an environment where consumers have less discretionary income. His software development experience includes designing and commercializing the first managerial expert system to recommend strategies and perform financial analysis, simulation models for training executives in competing in the deregulating and converging telecom market place, large scale information warehousing tool development, budgeting, HR and planning systems development.

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With large or international projects, international team members can be brought in from two major international consulting and accounting firms

Further reading and references:

For more on putting the customer first, consider reading, *The Soapholder Effect or Why Acting On Behalf of Your Customers Should Be Your Next Strategy* by Mike Moriarty and Alistair Davidson. http://www.eclicktick.com/soapholdereffectversion5.pdf

US mortality rates are available in the article *Deaths: Preliminary Data for 2009*, National Vital Statistics Reports, Volume 59, Number 4, published March 16, 2011 and available at www.cdc.gov/nchs/**data**/nvsr/nvsr59/nvsr59_04.pdf

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