THE LIMITS OF FREE

BUSINESSES NEED TO BE DOING AS MUCH FOR THEIR CUSTOMERS AS POSSIBLE, WHILE KNOWING WHEN TO DRAW THE LINE, SAYS ALISTAIR MACLENAN

In the early part of 2005, Amazon, the online retailer introduced its 'Prime' service. The proposition was a simple one: customers could now pay a set fee every year and this would entitle them to free delivery on the goods that they bought.

The amount Amazon decided to charge would no doubt have been worked out very carefully. From past purchases, Amazon analysts could easily work out an average annual postage spend for all its customers. However, even with its famous adherence to data and technology, it is likely Amazon takes a financial hit on the service.

Which doesn't matter in the slightest. Amazon Prime fulfils two business requirements for the company both of which are fundamental to its success. Firstly, it keeps customer loyal (or locked in, depending on your point of view) to Amazon by removing one of the obstacles they may have had to shopping online. It also encourages them to continue to spend more money with the company to ensure that they get the full value of their membership.

But once you offer something for free, the customer is going to keep wanting more and now Amazon Prime customers can access free video and music on-demand, free photo storage in the cloud, priority access to online books, and special offers on Amazon goods.

So does it make sense to keep squeezing your margins just to hold on to a client? Shouldn't doing the job you were hired for be enough to keep a customer happy? Do you really need to keep offering more and more services just to keep customers coming back?

Sadly, if you're a supplier of goods and services working in the current climate, the answer is most definitely yes. Would Amazon be doing it, if it didn't need to?

The 'disruption' – a term that tends to mean the replacement of human services with automated ones – that continues to take place in all industries has had the possibly unintended consequence of reinforcing the buyer's market. Customers now believe that they can do many of the tasks once seen as specialisms, so are asking: "What more can you do?"

Whether they can actually do them is almost irrelevant. They believe they can and as politics around the world is currently showing us, it is very difficult to overcome someone's perception of reality. Especially by using facts!

So is it a downward spiral of ever diminishing returns for an increase workload? Must every business in the world continually strive to offer customers more and more services on top of the ones they already provide? The modern business world doesn't sound like a fun place to be.

Well, yes, to a degree, but the key to avoiding the race to the bottom is to recognise when those new services can actually become their own separate profit centres. Earlier this year, Amazon announced that for a monthly fee, people could access its video on-demand services without being Prime customers. It is moving into a new market, up against new competitors, but is doing so with an existing loyal user base.

As I have said in this column before, the geo-world is being disrupted. New online mapping services, datasets hosted in the cloud, nanosatellite swarms and drone-deployed sensors are all driving the expectations of customers higher and higher. All suppliers working in the industry must work out what more they can be offering and what other support services or data they can include with what they are already providing.

Crucially, though, they must understand when they should stop giving it away. If they don't, they'll find themselves providing ever more, for ever less return.

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