

# Managing the **Customer Experience**



Turning customers into advocates

executive summary

Shaun Smith+Joe Wheeler

## Is this book for you?

- Are your customers loyal to your organization? Even better are they advocates? Do they go out of their way to buy from you? Do they introduce other profitable customers; just like them? If the answer is 'no', or 'not enough', this book is for you.
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- Do you find yourself competing for limited resources with colleagues in marketing, HR or operations who all seem to have separate agenda's. Do you feel that there has to be a better way to create value for the organisation and for customers? If so, this book is for you.
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- Are you finding that the more you spend on your loyalty card system the less profitable your customers seem to be? If so, this book is for you.
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- Are you uncomfortable when your President (or you) talk about the company vision or brand values because, in your heart of hearts, you know that they make little real difference to your customers or employees? If so, this book is for you.
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- Are you worried about the emergence of new brands that capture the imagination of customers and change the whole dynamic of the market place? If so, this book is for you.

# **The purpose of this book is to create unbeatable competitive advantage through:**

## **Delivering a unique customer experience**

This book will take you on an exploration of how a handful of leading companies have achieved almost unbeatable competitive advantage by focusing on the experience they create for their customers. These organisations are absolutely passionate about this idea – that the experiences that their customers have with their products and services redefine the concept of customer loyalty. Listen to their words: “We want to raise the worldwide bar for customer experience,” declares Jeff Bezos of Amazon.com.

## **Turning your organisation into a brand delivery system**

As markets become ever more competitive, relying on over-used customer loyalty schemes, building sexy web sites or investing in CRM systems alone will do little in the face of strong competitors. But you have to do something. The experience you deliver to your customers, every day, through every interaction, direct and indirect, either builds value for your brand or destroys it.

## **Designing loyalty into the organisation**

Understanding how you can make this step-change happen for your organisation is what this book is all about. First, we review why the customer experience has evolved from an interesting concept to a proven business model. We explore how industry innovators are aggressively pursuing customer experience as the route to long-term competitive advantage and consistent profitability. We examine customer advocacy. How far does it go beyond customer satisfaction? Why is advocacy the only true form of loyalty?

How can you turn your customers into advocates? It isn't easy. For a start, you must re-think who your customers are; what they deeply value; and how your organisation can deliver a customer experience that is consistent, intentional, differentiated and valuable.

## Competitive advantage continued...

### Turning your people into brand ambassadors

*Managing The Customer Experience* is also about engaging your people in a way that is very different from most organisations. Making them ambassadors for your brand. We tell stories of companies that do some amazing things to win the hearts and minds of their people. Then we will show you how it is done. There are few large organisations that have not determined their brand positioning and brand values. There are even fewer that have managed to turn these into brand behaviors that truly differentiate them in the eyes of their customers. Those that have successfully turned their people into brand ambassadors are rare indeed. We will take you through the steps that world-class companies go through to re-think their business from the customer's point of view. We look at how they design and deliver a customer experience through their people that drives loyalty and profitability.

### Moving from functional thinking to triad power

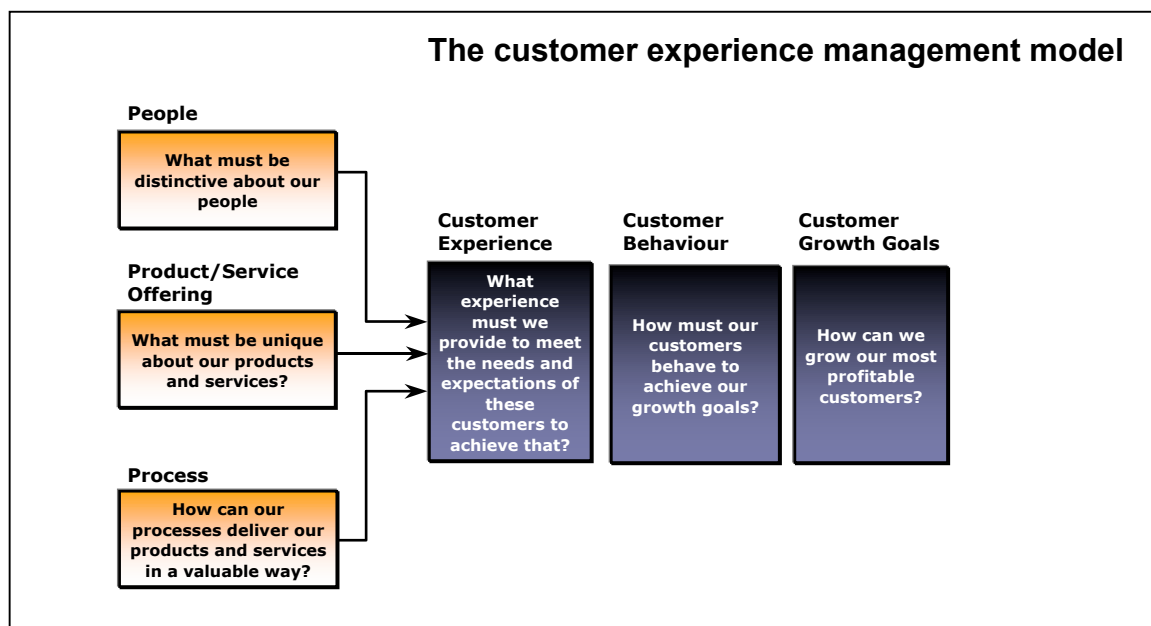
The book highlights the results of our best practice research into what distinguishes organisations delivering superior customer experiences. This includes new, innovative approaches to leadership, performance management and the importance of what we call “triad power”; marketing, operations and HR working together around a new agenda. Throughout we will draw heavily on the research and interviews we conducted with executives from leading brands for the book *Uncommon Practice: People who deliver great brand experiences*.<sup>1</sup> Whereas that book focused on the *who* and *what*, this one will focus on the *why* and *how*.

This is not an academic book; it does not dwell on theory. Our intention is for readers to be inspired by some of the stories and begin to apply some of the ideas to their organisations. To help with this the appendix is rich in resources and tools for charting your own course in pursuing a Branded Customer Experience□ .

## Managing the customer experience

Author and consultant Patricia Seybold agrees: “To win in the customer economy you need to build and sustain an exquisite branded experience and to measure and monitor what matters to customers. That’s new.” Creating a customer experience that becomes synonymous with your brand is increasingly recognised as a vital driver of corporate performance. Disney started the trend. Southwest Airlines adapted it to the airline sector. In the UK, First Direct started a new concept in banking using it. Howard Schultz of Starbucks applied it to selling coffee. Ian Schrager is perfecting it in the hotel sector and Amazon.com is applying it in the on-line environment. All of these companies are creating loyal customers by delivering branded customer experiences that create value for customers beyond the products or services the companies happen to sell. There are many consultancies and advertising agencies advocating the same thing yet no one has yet said how it is to be done. *Managing the Customer Experience* describes a model for how it can become the reality for any organization.

It starts with identifying which customers you should focus on, how they need to behave to achieve your growth goals. Do you want them to try you, buy more frequently, pay more, stay longer, refer friends? Each may require a different strategy. It moves on to crafting the customer experience that will meet their unique needs in a way that differentiates the organization. Finally, it determines the implications for people, processes and products.

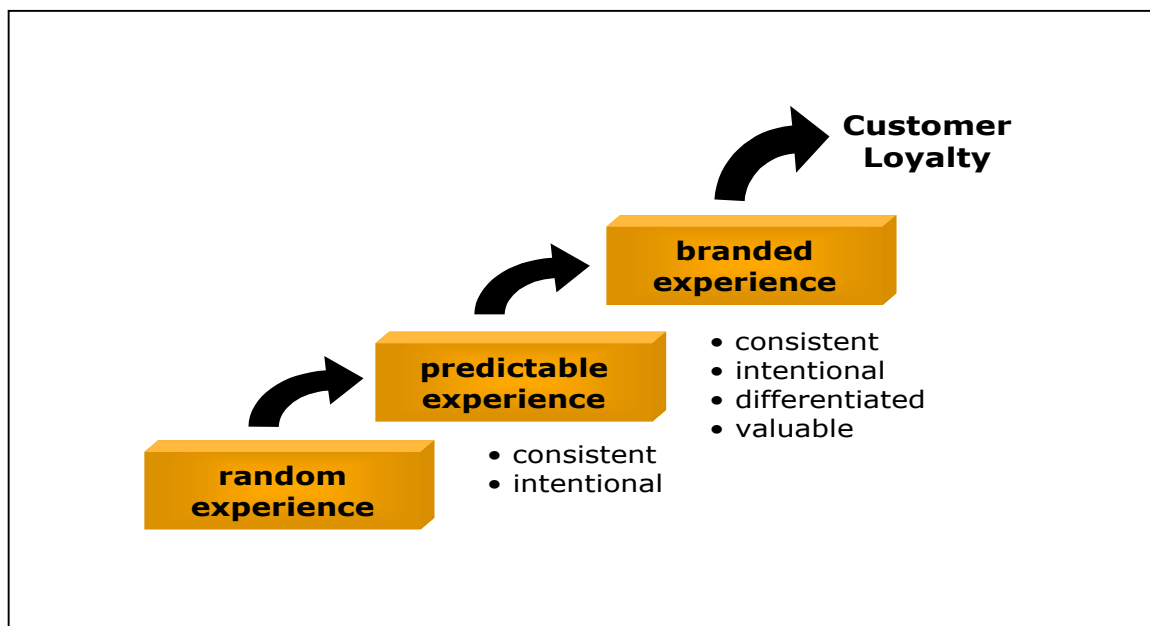


## The branded customer experience

At the heart of this process is the notion of the Branded Customer Experience. This is a powerful driver of customer loyalty. We define a Branded Customer Experience as being:

- Intentional in delivering a customer experience to support the brand
- Consistent in delivering that experience over time and location
- Differentiated from competing brands
- Valuable in offering a customer proposition which meet target customer needs.

This perfectly sums up the approach taken by one of London's rising branding stars, Pret A Manger, the fast growing coffee and sandwich chain. Pret's slogan is "Passionate About Food." It sets out to offer fresh food served quickly by friendly employees. Large posters on the walls in Pret stores spell out what "Passionate About Food" means in terms of the ingredients the company buys, the way its coffee is grown, selected and so on.

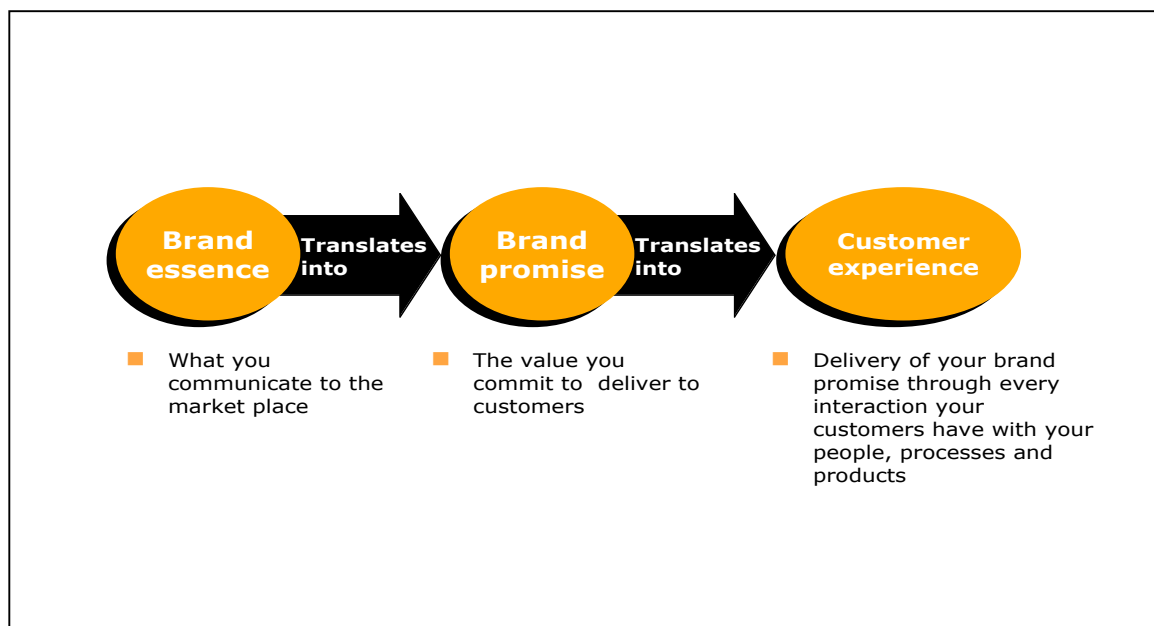


## Experiencing the brand

There are two routes to creating a Branded Customer Experience. The first is *experiencing the brand*; the second is *branding the experience*. They are similar— but differ in their starting point. For organisations that are established brands in mature markets, experiencing the brand is the way to go. In other words what does the organisation need to do to bring the brand to life and deliver on its advertising promises?

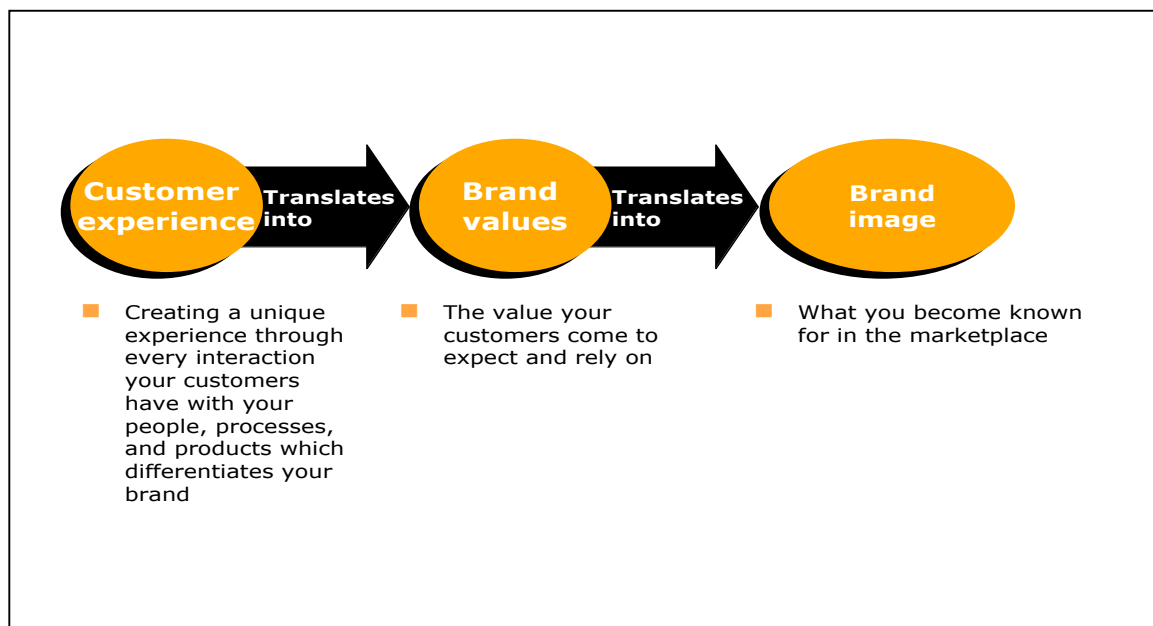
First, let's look at the experiencing the brand route. Most organisations start with the brand and what it represents and then intentionally create an experience which delivers it to customers.

One organization which successfully embarked on a process to completely rethink how it wished to deliver its brand was the UK supermarket Tesco. Ten years ago the brand was lagging behind in the grocery market and was most known for its pile it high-sell it cheap mentality. Today it is the UK's most successful retailer and the largest on-line grocer in the world. Sir Terry Leahy the CEO of Tesco was voted one of the UK's most admired leaders. Tesco's mission is to "create value for customers, to earn their lifetime loyalty". Over recent years, Tesco has embarked on a complete change program to focus on the customer and deliver against it's "Every little helps" promise. At the heart of this change has been the Tesco brand and what it represents to customers. Terry Leahy makes this point very clearly: "Our business strategy and our brand strategy are almost inseparable because one so closely defines the other.



## Branding the experience

Brands are powerful because of what they say about an organisation. Sometimes this can be a limitation because of the associations consumers hold about the brand and the experience it represents. In the US automotive industry, General Motors created a branded experience and then created a new brand called Saturn to describe it. GM knew that to successfully compete against the Japanese imports it needed to totally rethink how cars are sold. Its slogan -- "A different kind of car; a different kind of company" - summed up the need to create distance from the GM brand and the traditional associations car buyers held of the experience. GM's complete engineering of the customer experience and the brand was neatly summarised by Stuart Lasser, a Saturn dealer: "We knew from the beginning that, if Saturn was to succeed, we'd have to do more than just sell a good car. We'd also have to change the way the cars are sold, the way the people who sell are perceived and the way the customers feel about the experience of shopping for a car."



## So what is the pay off?

For example, some years ago, the UK's Midland Bank identified that there was a profitable and growing segment of the population that values time and convenience above all else. People in this segment lead busy lives and want to bank with an organization that is always available and easy to access, and one that provides quality service. Midland recognized that it could not credibly meet this segment's need with its own brand and its legacy of traditional High Street branches.

The results are worth the journey. A study by Accenture and Montgomery in 2000 found that if a \$1 billion enterprise increased its investment in customer interactions from average to high, it could anticipate a \$42 million return on investment. They concluded that 'superior relationship management is worth half your bottom line'. The payoff is the experience. The fact remains that most companies invest more in acquiring new customers than they do in keeping the customers they have. On the surface, this does not seem a particularly startling fact. The need to attract a continuing stream of new customers is conventional commercial wisdom. Much of the initial frenzy surrounding the new economy concerned large sums of money being directed at acquiring customers, with little thought to sustaining the relationship over time.

In this instance, conventional wisdom is fatally flawed. The economics are simple. It costs six times more to acquire a new customer than it does to keep an existing customer. At the same time, a five percent increase in customer loyalty increases the life time profits of a customer by as much as 95 percent. Investing in building loyal customers is an investment in profitable growth.

Knowing the economic facts—and these are facts—does not make retaining customers any easier. Capturing this largely untapped source of profit potential is demanding. To do so, a company has to go beyond customer satisfaction and create an indelible impression that causes customers to become true advocates for the company and its products and services. The best companies do not leave loyalty to chance—they design it in so that it is part of their *raison d'être*, integral to their culture, performance, outlook and brand. Creating and nurturing loyalty is the driving force behind the way the company is organised and structured, as well as the way it behaves.

## Loyalty cards don't create loyalty

The reality is that many of the loyalty cards now on offer are not about loyalty so much as price promotion, since they are available to anyone regardless of how profitable that customer is to the organization and simply incentivise customers to spend their money with the company offering the best discount (thinly disguised as points). Many customers now have wallets full of loyalty cards and simply use whichever one is most convenient or advantageous on the day. Part of this apathy comes from the fact that few loyalty cardholders fully understand the benefits their card is supposed to bestow. Research carried out by General Motors for its GM card found that only 32 percent of respondents knew the details of the perks offered by their card's loyalty scheme.

So are we against customer cards? The answer is no if they are used to gain insights about target customers and their needs and to shape the offer the organisation makes to them. Their real value is in creating knowledge about the customer. It is then up to the organisation to create a customer experience that earns their value. A card alone won't do it.

Loyalty requires that there is an emotional engagement with the organisation or product. This engagement comes from experiencing the brand or organisation in a unique way that creates true value for the customer. In a survey conducted in 2001 by Forum with consumers in the US, Canada and the UK, 69 percent of customers who awarded top scores for satisfaction indicated their intention to be loyal to that organisation. That figure dropped to just 19 percent for customers who were still satisfied but rated one box lower. The reason is that over the past 10 years organisations have become increasingly aware of the need for customer focus and customer satisfaction. So much so that it is now the norm and the entry price for any organisation.

## From loyalty to advocacy

Revenue growth has everything to do with “advocacy,” the readiness of customers to prefer a supplier and then refer friends, relatives and colleagues. Advocacy is genuine, deeply felt, loyalty. The dictionary definition of “advocate” is “plead for, defend, champion, recommend, support”. This is much more than customers who come back time and time again. Advocates are people who are prepared to argue your case. They are willing to offer their support as well as their custom.

Sometimes, an organisation can create such high levels of loyalty that the brand is accepted on trust by the market at large because of the positive word of mouth of satisfied customers. At the annual CRM conference in Paris a few years ago when relationship marketing expert Professor Adrian Payne asked for a show of hands for those who considered themselves to be advocates of Virgin Atlantic. Around 50 hands went up out of the 300 people in the room. He then asked those with their hands up to put them down if they had flown with the airline. This left about ten hands up. “So, you are people who are advocates of Virgin Atlantic ... but have never flown with them?” Payne said to clarify. The hands stayed up.

How can an organisation create advocacy without customers having a first-hand experience? By creating such a differentiated experience that customers become your best sales people. Richard Branson launched Virgin Atlantic at a time when most airlines were still state-run and had a reputation for being operationally driven and rather boring. What Branson did was to create a proposition that matched the safety and procedural efficiency of competitors but created a new and exciting customer experience. He put the fun back into flying. His upper class was soon a big hit, essentially a first-class product at a business-class fare. The on-board bar, interactive entertainment system, in-flight massage, CD-quality music channels and friendly and attractive cabin crew all created a customer experience that was new and different. When Virgin started flying the Hong Kong route using medium-range aircraft, it sometimes had to build in fuel stops because of strong head winds. British Airways, on the other hand, was using its long-haul 747s that were easily able to carry the fuel to make the trip nonstop. Even so, many business passengers still preferred to risk the delay of the refueling stop for the sake of the unique on-board experience.

## A new brand of leadership

Loyalty from customers and employees is inspired from the top; branded customer experiences demand leadership of the highest order. But this is not leadership as it has been routinely understood in the corporate world over recent decades. This is a new brand of leadership. The commitment of leaders to the experience is central. They must be champions of the customer experience in order for it to succeed. The challenge for many companies is to dramatically change their organisations into customer-focused enterprises. They must create an entirely different culture. This requires leadership of the highest order. And of the right sort.

In fact there is evidence that one of the biggest influencers on share price movement of companies is the movement of the CEOs leading them. The *Sunday Times* in the UK carries an annual review of performance of the shares picked by their business reporters. In its December 30<sup>th</sup> 2001 edition, the newspaper reported that in a market that had bombed one of its youngest reporters, Lucinda Kemeny had picked a stock that had soared more than 200 percent. She easily beat her more experienced colleagues in the quest to forecast winning stocks. Her secret? She chose the retailing group Arcadia because Stuart Rose the chief executive “had a solid record in turning round companies.” The *Sunday Times* concluded: “No company has ever failed because of external competition. Internal weakness is what destroys shareholder value. Similarly, firms succeed because of great leadership.” So the leader is a brand and is responsible for the value of the brand that he or she leads.

## Unleash the power of people

Leaders unleash the power of people. Len Schlesinger, while a professor at Harvard Business School, noted: “Strategy only exists in the behavior of the company’s leaders.” And, we would add, when it exists in the behavior of everyone, then it becomes an unbeatable advantage. All employees need to get it. They need to understand their role as ambassadors for the brand. Unleashing the power of the company’s employees is the most essential component in whether customers return or go to the competition. Leaders must therefore engage all employees as ambassadors for the brand—everyone understands how his or her work impacts the customer experience.

In these companies, leaders create brand ambassadors throughout the organisation and at the same time never relinquish responsibility as the ultimate guardians of the brand. These leaders articulate the company’s brand strategy and consistently demonstrate commitment to the Branded Customer Experience by investing the time and resources required to make good things happen. Delivering a Branded Customer Experience is a strategy that, in most cases, requires leaders throughout the organisation and significant organisational change. Without informed and inspired leadership, the strategy will fail.

## Creating triad power

Some years ago the term Triad Power was coined to describe the need for organisations to operate across geographic boundaries and market in Asia, Europe and the US to be fully effective. The new Triad Power is less global in reach but equally important to organisations.

The new Triad Power refers to marketing, HR, and operations or customer service working together as agents for change to deliver the promise

Creating and implementing a strategic agenda in the new economy requires executives to work across functional boundaries not just geographic ones. Creating and delivering Branded Customer Experiences is a result of aligning the whole organisation behind the customer proposition and is a result of key executives combining resources, budgets and competencies to implement organisational transformation. We believe this notion is far more powerful and likely to create value than the old concept of “internal customers”. We are asked our view about the importance of internal customers at so many conferences and our answer is always the same: there is only one customer and that is the person who is paying for your product or service. Focusing on the needs of colleagues is a dangerous route to take since it is all too easy to end up focusing on improvements that makes life easier for colleagues but has little or no benefit to customers. That is not to say we advocate ignoring the needs of colleagues. We use the term “line of sight” to suggest that by working back from the desired customer experience each department can examine how it creates value for customers and how other functions can best support the creation of that value.

## Keeping the edge

Life and business life seems to be made up of a series of cycles. Brands achieve pre-eminence by not just surviving these ups and downs, twists and turns, but by thriving in that process — indelibly embedding themselves in the minds of market constituents over time.

Strong brands survive the product life cycle through constant updating and re-invention. Fast moving consumer brands such as Heinz, Kodak, Colgate, Kellogg, and Gillette are in a constant state of re-introduction to the market. The slogan “New improved X” is known to generations of television viewers. Products like BMW, Sony and Palm are altered, embellished, improved long before customers tire of the existing model. Lifestyle brands such as Chanel or Nike are re-launched every season. Similarly, strong service brands survive the cultural life cycle through the same means – brands like Tesco, IBM, British Airways, Sears, Continental, and American Express have all reinvented themselves at one point or other. The fact is that as customers needs and values change so must the customer experience change to satisfy them. Those leading organisations that fail to stay in touch simply die.

## Praise for the book

‘Experience is everything’. That’s how Shaun Smith and Joe Wheeler begin, and I couldn’t agree more... I have argued for many years that a brand is more than just the features and benefits associated with a product, even if these features and benefits are highly differentiating. A brand is more than a name, more than a logo, more than the brand character and smiling faces in an advertisement”. **Bernd Schmitt CEO, The EX Group Inc**

“Refreshing and practical. Managing the Customer experience shows companies how to build the power of their brand. Smith and Wheeler inspire your organization to deliver a different and more valuable offering to your targeted customers”. **Bradley T Gale, author of Managing Customer Value and President, Customer Value Inc**

“Delivering customers a consistently superior set of benefits is probably the most important driver of value creation. This book provides a number of practical insights which will guide the reader on the difficult but fascinating path leading to great customer value delivery” **Jean-Claude Larréché, The Alfred H Heineken Professor of Marketing, INSEAD**

“A fascinating and insightful book which is equally relevant for the leaders of professional services firms looking to build ‘trusted advisor’ relationships with their key clients.” **Michael Bray, Chief Executive, Clifford Chance**

“In their book, Managing the Customer Experience, the authors bring forward the concept of loyalty and advocacy in customer experience in a very targeted way,, unearthing one of the most essential branding rules, which is to make your preferred customers your best ambassadors.” **Marc Gobé, President and Executive Creative Director, Desrippes Gobé Group – author of Emotional Branding, the New Paradigm for Connecting Brands to People and of the forthcoming Citizen Brand, Allworth Press**

“Managing the Customer Experience is an incredibly practical guide for building customer loyalty in the new century”. **Marshall Goldsmith, Founding Director of the Financial times Knowledge Dialogue and the Alliance for Strategic Leadership**

## Praise for the book continued...

“Smith and Wheeler show us what the 21<sup>st</sup> Century Company has to look like if it is to be successful. They show that great brands are not primarily built through advertising but by the experience and value they offer customers.” **Professor Peter Doyle, Warwick Business School, University of Warwick**

“If you are interested in increasing customer loyalty, *Managing the Customer Experience* is the book for you. Most books on the subject focus on your company’s image and tell you why it’s important. This book makes the business case for branding but then shows you how to do it. Full of practical ‘how to’ advice, illustrative anecdotes, and application exercises, it is not only a good read, but a significant investment in your future success.” **Richard Whiteley, Principal of the Whiteley Group**

“*Managing the Customer Experience* provides a comprehensive blueprint for any organization that wants to deliver a customer experience that supports and builds its brand. Smith and Wheeler bring this intriguing concept to life through a well-researched variety of examples, insights, methods and tools. Don’t just read this book – use it!” **Scott Timmins, Vice President, Babson College, MA**

“This book shows how to unlock the full value potential of the customer experience, supported by a wealth of examples from world leaders such as Tesco and Harley-Davidson. The connection made between the marketing, human resources and customer service functions is very powerful. This, combined with the emphasis on the role of leadership, makes *Managing the Customer Experience* required reading for CEOs, marketing, HR and operations directors and their teams” **William Gordon, Strategy Partner, Accenture and co-author of *Brand Manners* (Wiley 2001)**

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