Harvard Business Review

Creating a Customer-Centered Organization

A Harvard Business Review Insight Center Report

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The HBR Insight Center is an interactive resource that highlights the emerging thinking around today's most important issues. In this installment of the series, *Harvard Business Review* focused on how managers are turning their companies into customer-focused organizations.

The growing obsession with customer excellence is driven, in part, by technology. Today customers can obtain and exchange more information about the good and bad of their encounters with companies than ever before. That gives companies a great incentive to work harder to make customers happy — before, during, and after their purchases.

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Create Brand Superfans

by Matthew Rhoden

Forget customer satisfaction. It's a lagging indicator, not a leading one, and you can't build a forward-thinking strategy based on historical data. Instead, companies need to take satisfaction to the next level and create advocates of their customers.

Advocacy strongly differs from satisfaction, or even loyalty. It is a business strategy built upon trust, an enduring competitive advantage that has become increasingly important as companies lose control of the brand message to customers who can reach the masses in an anonymous, everlasting way.

Three hallmarks of a customer advocate differentiate her from simply being a supporter, influencer, loyalist, or satisfied customer. A customer advocate:

Supports the brand. An advocate will stand by the brand even in times of difficulty, isn't afraid to react to criticism or correct factually incorrect statements about the brand, and will purchase brand products as gifts for friends and family.

Actively promotes the brand. Advocates share their experiences via various social media, openly praise company employees both internally and externally, and provide unsolicited feedback on service and quality. In some cases, they consider themselves "brand protectors."

Is emotionally attached to the brand. Advocates have a sense of ownership in the brand. They will forgive shortcomings (such as price) when buying products, and treat the brand as part of their inner circle.

But how does one go about turning customers into advocates?

Silence detractors. Develop an environment where customers will not want to talk badly about a brand. I once spoke with an executive who said his goal was to "not have customers hate us." Identify and prioritize customer pockets with a high concentration of negativity, and allocate resources to fix the root issues. In other words, to get your customer-experience house in order you must

honestly focus on your most common complaints.

Build a solid and positive customer experience. Create consistent, coordinated interactions across channels to meet customer needs. Develop efficient internal processes, integrate data, and empower employees so customers are satisfied every time they interact with you. Satisfaction and loyalty are critical to the success of a business. But you don't have to stop there.

Offer extraordinary experiences. Go that extra mile when customers least expect it, and in return you will receive their long-term business. For example, as a Delta "very" frequent flier, I have received two unusual offers. One was a black-tie invitation to the grand opening of Delta's new Terminal A in Boston. The second was an offer for two free flights to Miami, two tickets to an NFL game, and a free night at the Ritz Carlton. While the latter offer was potentially very expensive, it created a strong advocate of me for life — despite the fact that I've had many instances of frustration with the carrier.

The process of creating an advocate depends on the level of customer engagement that already exists. Imagine that customers sit on a spectrum, from indifferent on one side to advocates on the other. For indifferent customers, emphasize the value they receive over price and create specialized services addressing their specific needs. For customers who already feel fulfilled, you need to create emotional connections between them and the brand. For example, one Middle Eastern telecom operator has begun to create the brand connection by extending extraordinary discounts from third-party partners, such as theaters and car rental agencies.

Meanwhile, committed customers should be encouraged to become members and participate in the customer community, as well as create "networking" opportunities. In another case, Victoria's Secret has begun to build an extraordinary online community by providing members with the ability to upload photos and videos, share their product experiences, and discuss special A-list events they were invited to and attended together.

Satisfaction and loyalty are important, but they're old news. Forward-thinking companies will be the ones that identify and work with their customer advocates to genuinely build the brand, the customer base, and the bottom line.

FEATURED COMMENT

"It strikes me that there are certain products (like books, sports, or even fraternities) where the business itself is that of creating superfans. The brand itself IS the product." — Zane

How Philips Uses Net Promoter Scores to Understand Customers

by Suhail Khan

To understand what your customers really think about your company, here's one simple exercise: ask them to rate you on a scale of 0 to 10. Customers who give you a 9 or 10 are "promoters," and would generally recommend you to a friend. People who score you at 6 or below are "detractors," and are likely to make negative noise about your brand. The 7s and 8s are "passives" or "on the fence" — they don't feel strongly positive or negative about you.

If you calculate the number of 9s and 10s, then subtract the number of 6-or-belows, the result is a company's Net Promoter Score.

At Philips, where I direct our customer experience efforts, we began using Net Promoter Scores during an initial pilot in late 2006. Since then, we've embraced the tool across our company to try to become an outside-in, customer-focused organization. This tool has deepened our focus on organizing ourselves around the needs and expectations of our markets. We have realized that our products and services have to be more than just feature-rich and technologically advanced; they have to deliver an unsurpassed experience at all customer touchpoints, from the initial shopping experience to postsales service. We also realize the need to measure our performance relative to our competitors.

Consider a simple example: a customer, accompanied by his family, goes to an electronics store on a Saturday to buy a home theater system. His whole family is excited. The kids are looking forward to playing their video games, his wife waits to watch her favorite show, and he can't wait to play his favorite music. They come home, unpack the system (so far so good), and plug it in. And then... nothing! No picture, no sound. He calls the customer support number (which in the Netherlands is in most cases is a 900 number, making the customer pay for the call) and works his way through the initial menu options to eventually discover that support is only available during the week. At that moment, he begins to question his whole decision for purchasing that brand. His family is disappointed, and the weekend potentially ruined.

At Philips, our customers had exactly this experience. As a result of our NPS efforts, we heard about it and quickly made some changes. We opened our customer care center on weekends, and customers responded with a surge of positive reaction. Since then, we have driven these kinds of changes throughout the company. From tying NPS performance to executive compensation (and eventually the entire organization) to making NPS a key filter for strategic business and portfolio decisions, we have embedded NPS into our company's fabric. To further bolster our NPS learnings, we launched a web-mining project to capture the chatter in cyberspace around our brand and products. We then triangulated this to better understand the impact of social media on NPS. Studies show that over 78% of purchase decisions are made based on peer-to-peer recommendations, while only 14% are based on advertisements. This is critical. Whether a company is paying attention or not, the customers are out there, sharing their experience about products and services with anyone who is willing to listen.

In the last two years, we have put in place a methodology that enables us to determine how new products would contribute and influence NPS ratings for Philips. Products indicating high NPS rating potential are allowed to continue down the development chain. Those that don't are either sent back for additional work, or even killed.

It's important to have a large number of promoters, but it's just as important to activate these promoters as your brand evangelists. Most companies using NPS (or similar programs) spend most of their time focused on detractors, while promoters are left on the shelf to collect dust. We decided it was just as critical to engage our promoter as it was to address the concerns of our detractors.

To achieve this we launched the Reference Promoter program. The concept was to get customers who are willing to recommend you to actually do so. As a result, customers are allowing us to capture their testimonies on video or audio interviews and as case studies. These testimonies are then catalogued by topics that typically show up in proposals, allowing our sales force to leverage this to target responses and increase sales. If a customer wants to learn more about the topic of how we manage relationships, we can pick a relevant testimony and showcase that to them. This brings NPS into the realm of driving business and creating more market share growth opportunities.

There is so much more to do in this journey. To truly dominate a market, we must execute and focus on delivering a "wow" experience to all our consumers, customers, and business partners in all the things we do for and with them. The approach: listen, build relationships, and adhere to the fundamentals of good corporate citizenship. Customers are telling us how to behave; it's up to us to create transparency and accountability standards that are acceptable to our audience, substantiating that we've heard them.

FEATURED COMMENT

"Good article. I've seen success in asking the NPS question ('would you'). For promoters, we asked them a follow-up question of 'will you.' Those who assented or wanted more information before committing were contacted within 24 hours to arrange their participation in one of a variety of reference programs. Result? 20% increase of reference accounts in less than a year." — Andy

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What Zipcar Can Teach the S&P 500

by Stephen Wunker

If American companies are to grow their way out of the doldrums, they will need to show some of the imagination of upstarts. Consider Zipcar, whose recent IPO valued the 11-year-old company at over $1 billion. The company came from nowhere into a rental car business dominated by giants such as Hertz and Avis, creating a new market of by-the-hour rentals. Meanwhile, the incumbents focused on battling each other at longstanding airport locations. As the giants continue to duke it out, Zipcar has captured 80% of the industry it created. Ironically, Zipcar repeated a story that was told once before in the rental car industry. Hertz is the leader at the airport, but Enterprise Rent-A-Car grew to become more than double Hertz's size through concentrating on neighborhood-based locations, where the giants did not compete.

The S&P 500 companies, which now have nearly $1 trillion of cash on hand, should take heed. While entrepreneurs are grasping for venture capital, the nation's leading firms seem puzzled about how to spend their money. Their lack of imagination stunts economic growth.

A big problem is that these companies tend to treat nascent opportunities the same way that they approach established businesses. They want data, even though data on nonexistent markets is inherently fictional. So they focus on the market as it is today, where data are more easily obtained, and they employ the most conservative estimates about new sources of growth. They may also concentrate exclusively on what their customers want, which biases them toward incremental improvements on current solutions. As Henry Ford reputedly said of his industry, "If I had asked customers what they wanted, they would have said a faster horse."

When they do go after an idea, big companies can pursue it so cautiously that opportunity slips through their fingers. For example, a decade before Apple released its iPad, Bill Gates demonstrated a tablet computer to a capacity audience of 12,000 at a big Las Vegas hotel. Unfortunately, Microsoft tied its tablet concepts to its Windows operating system and made them merely pen-enabled personal computers, so these products remained a tiny niche of the computing industry.

Stephen Wunker is the author of Capturing New Markets: How Smart Companies Create Opportunities Others Don't *(McGraw-Hill, June, 2011).*

Entrepreneurs follow a different path for a simple reason: they have to. If a new rental car company wanted to defeat the behemoths at the airport, it would have a rough slog. If its ambition was to improve on current products in tiny increments, venture capitalists would ignore them. Start-ups create new markets, or they struggle for oxygen. Necessity truly is the mother of invention.

If big companies are to seize more fast-growth opportunities, they can learn from the venture capitalists that back the most successful entrepreneurs. Venture funds create a basic thesis about which industries will grow, and then they place a lot of inexpensive bets and give start-ups leeway. Rather than invest in fancy spreadsheets and measure progress against detailed financial projections, they toss growth estimates out the window and expect companies to iterate their way to a viable position. In a big company, success is measured by a track record of success, whereas a typical venture fund expects more than 60% of its investments to be total write-offs. Yet venture capitalists exceed the returns earned by public companies for one simple reason — they fail very fast and very cheaply.

What could happen if these companies embraced the venture capitalist playbook? Johnson & Johnson once tasked a team to compete against its market-leading suture business. It sent executives to a new city and gave them freedom to build a new business, while making clear its investments would be limited. The result, Ethicon Endo-Surgery, is now a nearly $5 billion enterprise. Barclays Global Investors hired an industry outsider to pioneer its exchange-traded funds, iShares, and gave him the freedom to build a new business oriented around Main Street customers. Within a decade iShares grew to be worth over $4 billion. The approach has even worked for the U.S. Army, which puts majors and colonels through an 18-week course to become "red team" leaders who look at problems from the standpoint of adversaries and other nations to identify alternative strategies. Red teams are not looking to confirm the status quo; their whole mission is to disrupt it.

Progress starts from finding and capturing new markets, and recognizing how different they are from established ones. By embracing uncertainty, demanding bold ideas, and realizing how little they understand about how new ventures will fare, big companies can put that $1 trillion to use. They can give entrepreneurs a run for their money. This would cause some headaches for venture capitalists but make both customers and the national economy much better off.

FEATURED COMMENT

"Shareholder mentality is part of the problem. Shareholders, or rather 'shareturners,' expect quick returns on their investments, leading companies to focus on short-term profitability. To rephrase Henry Ford's quote: 'If I had asked my shareholders what they wanted, they would have said a higher dividend.'" — Achim

How Fidelity Used Design Thinking to Perfect Its Website

by Frederick S. Leichter

Fidelity's websites account for the vast majority of interactions our company has with its customers. We have always invested heavily in usability research and online interaction design, and our customer-facing websites have been continually refined over the past 15 years — and as Fidelity's chief customer experience officer, I'm part of a team that helps ensure that our websites continue to drive high customer satisfaction scores.

For the latest set of improvements to our website, Fidelity sought outside help from an unusual source: students at the Stanford University d.school (formally known as the Hasso Plattner Institute of Design). At the d.school, students learn to use the practice of design thinking to solve big problems, and they've helped us adopt this methodology to define, validate, and address our own challenges in a new and highly effective way.

Design thinking is rooted in the principle that to design a great product or service, one must develop empathy for and deep insight into the customer's behaviors and needs. Teams spend time with customers from the beginning of the development process, asking questions, rapidly generating multiple ideas, and testing them. The point is not to validate or prove an idea "right," but to get instant, unfiltered reaction. Design thinking promotes a culture of prototyping and a bias toward action. These "low resolution" prototypes can be as rough as a napkin sketch or a model built with pipe cleaners. Some of the greatest design thinking successes begin with a concept that fails to resonate with customers, leading the team to ask why and to use that insight to generate new and better ideas.

A group of d.school students were using design thinking to tackle problems like providing better water supplies for sub-Saharan Africa or designing low-cost incubators for remote villages worldwide. In our industry, there are also complex challenges that affect millions of people. We presented two questions as the project for a class titled "Creating Infectious Action": How do you get workers to save money for the future? How do you get younger people to do something that they know is good for them, yet for which the positive payback is many years away?

In a matter of weeks, student teams conducted research, created prototypes, and tested numerous concepts. The ideas included "future visualizers," candy bars for savers, grandparent graduation gift packs, dynamic charts to illustrate savings progress, and a financial education program for kindergartners. The students found that even the brightest graduate students are turned off by complexity, financial jargon, and fine print; Gen Y-ers, surrounded by tangible and virtual media, tend to lack reward recognition for long-term behavior and need motivation; and invariably, baby boomers not only remember their first savings-bank passbook, but have saved it and can find it to show you.

Ultimately, Fidelity used images of a 1970s bank passbook to create new ways to illustrate balance history and performance data on its website, giving customers positive feedback and providing motivation for achieving their savings and investment goals.

After our experience with the class — and inspired by the quality of ideas and the speed with which they were generated by the students — we brought the practice of design thinking back to Fidelity. Simply put, rather than developing and then testing, we now begin projects with customers, to incorporate their thinking earlier and more effectively.

We've learned that customers give better, more genuine feedback with low-resolution prototypes and an explicit invitation to contribute thoughts to the development process. Designs and project plans can then be adjusted or scrapped before the team has spent significant amounts of time and resources polishing a product offering. Perhaps most important, this methodology avoids the model of inviting customers to review a mockup website that is more or less fully functional, which leaves customers feeling as if their input is largely an afterthought.

When a Fidelity team met with a group of its workplace-services customers to understand how they used their employer-offered Fidelity benefits, the team brought blank paper and markers instead of PowerPoint slides and slick Photoshopped pictures. "When was the last time that you interacted with your benefits? How was the experience? What was good? What could be better? Why? Why? Why?" At one point during this session, we asked customers to formulate their benefits needs as a Craigslist ad and were floored by the directness, humor, and clarity of their responses. The customers' verdict: "That was the best five-hour meeting we've ever been to."

In another session, customers and Fidelity team members broke into groups and generated three different low-resolution paper prototypes:

- "What if benefits enrollment worked like a navigation system?"
- "What if benefits looked like an airplane cockpit?"
- "What if benefits enrollment was a perfect first date?"

We let the customers react without offering editorial commentary, remaining open to hearing reactions. At the end of the session, the Fidelity team emerged not only with a far superior picture of customer perspective, but with an enthusiastic invitation to return to show progress. Clearly, the customers were pleased to have been listened to and valued.

Being focused on the customer, with a bias toward action, fostering a culture of prototyping by interdisciplinary teams, learning to "show, not tell" and then — above all — listening, these design thinking practices have helped Fidelity gain important insight into meeting customer needs, and increased the odds we'll continue to provide excellent customer experiences.

FEATURED COMMENT

"Good informative article. I agree with your approach. Usography did a similar study for a large financial institution, but we also went out to homes, looked through file cabinets of financial records, and used participant diaries, as well as the co-creation methods you describe." — Paul

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The Coming Point-of-Sale Revolution

by Grant McCracken

My wife and I recently paid a visit to the new Whole Foods in Stamford, Connecticut. In the time it took us to walk from one end of the store to the other, I made three new friends.

Each was a Whole Foods employee who began our interaction with "Can I help you, sir?" and end up sharing a little story about themselves, the new store, or how much they liked my jacket. I was feeling like Major Grumpy-Pants at the time, yet I was charmed and disarmed.

If it happens once, that's an accident. If it happens three times in the space of five minutes, you know it's policy. Whole Foods is hiring gregarious people.

How much friendliness the employee gives off is the employee's choice. Some companies have a minimum standard. They don't want snooty, obnoxious, or eccentric. (They don't want that superbly dingy cashier lady played by Kristen Wiig on SNL.) If the employee can deliver pleasant and agreeable, or facsimiles thereof, that's fine.

Some companies — like, apparently, the Stamford Whole Foods — ask for much more. Zazzle asks employees to deliver shouts of joy at the approach of guests. I walked by Best Buy in New York City where all the staff were doing some sort of affect-building exercise on the sidewalk. Greeters at Walmart are supposed to be forthcoming. Disney is famous for big emotions.

But there are problems. One of them is the American conviction that your emotions are your own personal business. Generally, we believe emotions are a private matter and that it is wrong to ask the employee to use them for public, commercial purposes.

And then there's the problem of evident insincerity. No one believes the truculent server who promises to be our friend for the duration of a meal. Does it add value to the occasion? Well, perhaps as low comedy, but not otherwise. There is something manifestly unconvincing about the airline staffer who recites, "Buh-bye! Buh-bye! Buh-bye!" as we leave the plane.

Finally, there is a mechanical problem. Greetings are little gifts, and when we force people to be friendly, they are no longer making a gift. No social value is being created. The problem is not insincerity but a paradox. A forced gift isn't a gift.

The best way around this may be to hire people who are naturally friendly. And surely this wouldn't be very difficult. It's not hard to spot a social soul. But are there enough of them? Especially now that Whole Foods, Zappos, and Disney have gone on a hiring spree? What happens when we run out of nice people?

There just has to be a growing accumulation of the socially inept and the downright rude. Think of all those back offices filled with grouchy people. Thank God for back rooms and locked doors.

Clearly, we are going to have to go beyond just selecting for cheerfulness and start training it. We may also have to start paying for it.

Let's see what we can learn from Dolores. Dolores is the reason a 7-Eleven in Shirley, N.Y., sells more coffee than any other store in the system. She was featured recently in an episode of Undercover Boss. Have a look at this excerpt to see Dolores in action. (Feel free to skip ahead to the 1:10 minute mark.)

Dolores is no mere greeter. She's there to make the coffee flow. And after 18 years here, she knows a lot of people by name. And if she doesn't know your name, she is prepared to go with an endearment. (And who doesn't want to be called "hon"?) Most astonishingly, she punches people. And she's not asking for permission either. "I gotta hit ya," we hear her say, "You know I gotta hit ya."

Hitting customers. Now there's a big idea.

I believe Dolores shows us that our conventional instincts are wrong. We offer the customer a glassy, scripted welcome. We craft our greetings as if the staff person were a butler, all frosty detachment and sangfroid. "Good afternoon, sir, may I help you find something?" There are options here. In some cases, it's actually okay to hit the customer.

The customer is no robot. Standard greetings are just so very boring. To be sure, we don't want to be intrusive or presumptuous. We are all Major Grumpy-Pants some of the time and when that's the case we just want to be left alone. It's also true that respect must be shown, and distance honored.

Human beings, most of them, come into the world with a good ear for things social. We're wired to be convivial. (Imagine having a chance of contributing to the gene pool if we were not.) Wiring aside, we are rewarded for good interactions and punished for bad ones.

People with a really good ear for social interaction are probably 20% of the population. With the right hiring and training, we can probably double that number. And now in the place of that sullen teenager who avoids eye contact, we have retail staff fantastically good at reading people and responding to them in real time. 7-Eleven sells 1 million cups of coffee a day. Imagine what that number would be if they had a Dolores in every store.

When we turn our service staff into automata, we squander a great opportunity.

FEATURED COMMENT

"Interesting post, and, as always, thought provoking. As I read your story, I was thinking of the last shopping trip I had at my local Kroger. About half of the check-out lanes are 'self check-out,' so you actually can go there, spend about half an hour doing your shopping, and leave without having a single human interaction. All about being efficient: go in/get out/carry on with your life. Very different experience, and I think there is a place for both of them: one where the gift is efficiency, the other one with its more unique gift. The really interesting point I got from your story is the model of empowering your frontline employees to be themselves, and be better off for it." — Carlos

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Using Mobile Phones to Capture Customer Experiences

by Emma Macdonald, Hugh Wilson, and Umut Konus

How well do you know your customers?

We're guessing not as well as you would like to ... and not as well as you'll need to in the future.

Understanding customers has never been more important as empowered, fickle consumers take less notice of your marketing campaigns, listening instead to the experience of other customers, online and offline, and doing their own research. Surveys are useful for obtaining quick feedback from a large number of customers but may lack the depth we need. Ethnographic programs such as Procter & Gamble's "Living It," which sends managers to live with a family for a time, can be invaluable, but they are not always practical, the effects are difficult to quantify, and the act of observing customers in such close proximity influences them significantly.

So what can you do?

Imagine you could live in the pocket of your customers as they use and talk about your products and services. While you can't get that close to your customer, their mobile phones can. What if you could appropriate the phone to provide real-time updates on the customer's behaviors, perceptions, and emotions? This is just what companies — from Coca-Cola to LG Electronics and Unilever — are doing by using a real-time experience tracking approach.

With this approach, you recruit a consumer panel that will send a text message whenever they come across your company or its competitors. The brief, structured text messages capture what kind of touchpoint it is, how the consumer feels in response to the company touchpoint, and what they think about the brand as a result of this encounter. (A touchpoint includes every way that a customer comes into contact with your company's product, service or brand, including your channels, your communications, your service points, and product usage — and even encounters a company doesn't control, including hearing about your brand from a colleague or seeing it in a friend's home.)

Emma Macdonald is a senior research fellow and Hugh Wilson is a professor of strategic marketing at Cranfield School of Management in the U.K. Umut Konus is assistant professor of new product development at Eindhoven University of Technology in the Netherlands.

Add these encounters up across a week and across a whole sample, and you can assess experience share and experience effectiveness. ("Experience share" is a brand's share of all touchpoints in its category, and "experience effectiveness" is the quality of a brand's touchpoints, as measured by emotional response and perceptual response, measured in real time.)

From our analysis of over 230,000 customer touchpoints collected by market research agency MESH Planning, we've reached two broad conclusions about the lessons for all companies.

First, it's important to track your customer's brand experience in real time. To get closer to your customers, you would ideally walk along with them, seeing what your customers see, listening to the conversations they have, watching who they take notice of online and observing how they use your brand. This observation would happen in real time so you could record when your customers "touch" your products, services, or communications and their immediate responses to these experiences. Present your customer with a survey question that asks about their emotional response to a brand encounter that occurred two months ago and they've probably long forgotten. However, by capturing this emotional impact in real time, it is possible to understand how your brand is affecting your customers. By collating the series of encounters your customers have with your brand over a period time, you can better understand the relative impact of brand touchpoints and how they lead to purchase. You can work out which aspects of your operations you should be spending on.

Second, it is vital to capture all touchpoints, including those that you don't control.

The consumer panel sends texts for all touchpoints. This is not onerous — it requires a time investment of 20 seconds for the customer after each time they see your brand in a TV ad, in a newspaper article, online, etc. The wide scope of experiences tracked is important and revealing. Customer experiences with service touchpoints have traditionally been evaluated via satisfaction surveys. But we also need to understand our customers' responses to those activities we don't control, such as word of mouth or observing other customers, which often occur without any visibility to us. Customer-initiated encounters — such as going into a store or having a conversation — are often more frequent than posters, mailings, radio, and many other supplier-driven touchpoints.

Without this breadth as well as granularity of information, we don't know whether to allocate resource to improving call centers, retail channels, advertising campaigns, or new product innovation. Managers might have traditionally spent money on outbound media, without clearly understanding its relative impact on the customer compared to all the other aspects of their brand experience. If these encounters aren't right then no amount of spending on outbound communications is going to do the trick.

For instance, one major cellphone network provider had such poor word-of-mouth that its disgruntled customers talked about it all the time. As a result, among its prospects, conversation was the single most common touchpoint. Any amount of ad spending was going to be wasted until the customer service problems were fixed.

Time was when customers learned about our products and services through what we told them. No more. Rather, we need to listen to customers in real time. Customers touch the brand more often than we think. By better understanding the magic moments that our customers have with our brands, we can identify the most profitable opportunities to improve our customer interaction.

FEATURED COMMENT

"You seem mainly to be referring to products, but I think this could be very powerful as a way of tracking customer interaction with services brands. I look forward to hearing more."
— Dianne

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How to Play Marco Polo When Setting Prices

by Rafi Mohammed

Remember playing Marco Polo when you were a kid? In this swimming pool game, the person who is "it" closes his or her eyes while other players (eyes open) spread out around the pool. The goal of the "it" player is to tag another player by yelling "Marco" and locating the other players by sound when they respond "Polo." Winning this game requires listening and responding.

The same is true for setting prices: companies need to listen and respond to consumers. One price does not fit all — creating a successful pricing strategy is much like playing Marco Polo. Companies need to listen for clues from potential customers ("Marco") and respond with the right plans/prices ("Polo").

In terms of their pricing needs, customers for any product or service tend to differ in three primary ways: (1) desired pricing plans (for instance, instead of outright ownership, a preference to lease), (2) product needs, and (3) willingness to pay. The following strategies can generate new profits and growth by understanding and meeting these needs.

Pick-a-Plan. Customers are often interested in a product but the pricing plan simply does not work for them. Offering a new pricing strategy can "activate" these dormant customers by meeting their pricing needs. A friend recently decided to take his entire family to the Caribbean to celebrate his 70th birthday. Inquiring about his destination, he emphasized: "I have to go to an all-inclusive resort — it would kill me to see my grandchildren drinking $5 Coca-Colas all day" ("Marco"). By offering an all-inclusive plan ("Polo"), resorts satisfy an important need of consumers who are willing to pay a premium for the freedom of not having to think about the price of every meal, drink, or activity while on vacation. Offering this pricing plan moves a resort to the top of the list for a key segment of vacationers.

Implementing a new pick-a-plan pricing strategy can create "home run" profits. Fundamental to iTunes' success was its willingness to listen and respond to customers' needs. When iTunes' was introduced, the only legal way to purchase digital music was to pay a monthly fee (~$10 per month), which provided unlimited access as long as the fee was paid. In announcing iTunes' pricing strategy, Apple CEO Steve Jobs declared, "We think subscriptions are the wrong path. We think people want to own their music." He was right: in its first week, iTunes sold over a million songs — the number that Apple hoped to sell in a month.

Versioning. Offering variations of your product or service to meet unique customer needs can result in higher margins as well as growth. Many gourmet restaurants offer early bird, regular, and chef's table versions. One hundred–calorie snack sizes of consumer items are typically 20% more profitable on a margin basis compared to larger sizes, for instance. Seeking more profitable consumers, Royal Caribbean's market research concluded that high-margin cruise customers are seeking perks such as separate places exclusively reserved for them. To meet the needs of this coveted segment, cruise lines are creating a "ship within a ship" by providing separate pool areas, private cocktail parties with the captain, and priority status to avoid waiting in lines. The result is the opportunity to attract new customers who are willing to pay premium prices. On Disney Dream cruises to the Bahamas, regular staterooms start at $439 per person while concierge level rooms targeted to higher-end cruisers run $2,159 per person.

Differential Pricing. For most products or services, some customers are willing to pay more than others. The strategy of differential pricing involves discreetly offering lower prices to price-sensitive customers without inducing cannibalization — the potentially profit-eroding side effect of discounting. Common differential pricing tactics require customers to credibly announce "a low price is important to me" by jumping over a "hurdle." For example, using coupons involves several hurdles such as looking for, cutting out, organizing, carrying, and then redeeming at the checkout counter. Other techniques designed to provide low prices to budget-minded customers include rebates, sales, distribution (outlets), negotiation, price match guarantees, and bundles.

Take a moment to ask your frontline workers how customers are reacting to your pricing strategy and what they are looking for. The key to pricing for profit and growth is to respond with the appropriate set of "Polos."

FEATURED COMMENT

"This approach is more like a guessing game and I'm still figuring out just what is 'affordable' and fair for my customers that will make them pay for a monthly service fee. I like your concept about ownership vs. subscription — and the first one gives customers that special feeling of owning something valuable at a fraction of the cost." — Dianne

Beyond Mass Customization

by B. Joseph Pine II

Let me tell you a secret for creating the customer-focused organization: focus on the customer! That may sound tautological or even trite, but it has real meaning, because most so-called customer-focused organizations do nothing of the kind. Rather, they focus on markets (anonymous agglomerations of customers) rather than on any real, living, breathing individual customer.

Most recognize that there are no truly mass markets any more. But we must go beyond looking at market segments and niches to embracing the truism that every customer is his own market. Every customer deserves to have exactly what he wants at a price he's willing to pay, and companies must make that happen in a way that makes them money.

Multiple Markets Within

First identified by Stan Davis in his 1987 book *Future Perfect,* this progression from mass markets through segments and niches to mass-customized markets doesn't end there. That notion may seem strange. After all, what could possibly be next after recognizing that every customer is his own market?

There is one more step: recognize that every customer is multiple markets. Customers want different offerings at different times under different circumstances.

Think of travel. If you travel for business, you want one thing from the airline, the hotel, the rental car company, the restaurants you frequent, and so forth. Bring your spouse with you and suddenly all of those requirements change. Bring the kids along and they change again. Travel for pleasure, rather than for business, and each permutation mutates yet again.

Or consider how your reading habits change with time. Why do newspapers always publish larger editions on Sunday? That's when most people have extra time in their day to consume more information. In addition, consider how what you read is influenced by your current interests, what is on

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your mind, how much time you have, and even your mood. Each and every time you read, you are in a different market than you were before.

Mass Customization

That's why mass customization is so important today. (See my *Harvard Business Review* articles, "Making Mass Customization Work, Do You Want to Keep Your Customers Forever?," and "Four Faces of Mass Customization.")

When Stan Davis coined the term mass customization over 20 years ago, it truly was an oxymoron. When I wrote a book on it in 1993, it was, as its subtitle attested, "the new frontier in business competition." Today, it is an imperative in industry after industry to discover and fulfill the multiple markets within each customer.

To make it work, you must modularize your capabilities. Take your offering — whether a physical good, intangible service, or memorable experience — and break it apart into modular elements like LEGO building bricks. Think about it: What can you build with LEGO bricks? Anything you want, thanks to the large number of modules (with different sizes, different shapes, different colors) and the simple and elegant linkage system for snapping them together.

Then you must work with each individual customer, creating a design experience through some sort of design tool that helps customers figure out what they want. For customers don't always know what they want, and even if they do, they can't always articulate it. Recognize also that the most frequent mistake mass customizers make is overwhelming their customers with too much choice. Fundamentally customers don't want choice; they just want exactly what they want.

Provide a design tool so you can figure out what they want at this moment in time, and then get that information back into operations to do something different for that customer. It can be as simple as Dell's website configurator or as sophisticated as LEGO's DesignbyMe, where you download a digital designer to create a virtual design of whatever you want, which LEGO analyzes to sell you exactly the bricks to create that design on your family room floor. Recognize that mass customization is not being everything to everybody; rather, it is doing only and exactly what each individual customer wants and needs. The former is a surefire route to higher costs; the latter can actually lower your costs by eliminating waste in your operations and sacrifice in your customers' lives.

In addition, don't forget to remember your customers' preferences. Create a database of customer profiles so that with every interaction you have with them you can lower your customers' sacrifice — what they have to settle for to buy from you versus what they truly want and need. Again, this is not because they'll always want the same thing, the same activity, or the same event; rather, it's to provide a base from which you can more easily ascertain their current preferences and then fulfill them.

Only then can you hope to fulfill the multiple markets within each customer. Be the one company to recognize them as the unique individuals they always were.

FEATURED COMMENT

"Joe, your piece effectively illustrates how important it is to 'know' your customer, and to understand how the same person can be a very different consumer — based on the situation. Describing individuals as persons with 'multiple markets within' is brilliant way to describe this phenomenon. Lastly, I really like your challenge at the close of your post — to 'be the one company to recognize them as the unique individuals they always were.'" A worthy goal, indeed!" — S. Drag

HBR.ORG INSIGHT CENTER BLOG

Understand Your Customers with Colored Pencils and Cartoons

by Eddie Yoon

Some CEOs truly crave direct customer contact. Apple's Steve Jobs and Mark Cuban, owner of the Dallas Mavericks, are well known for directly emailing and engaging with their customers. I know a former CEO of a large beverage company who so loved direct consumer contact he couldn't contain himself at focus groups. After watching behind the mirror for a spell, he'd burst into the room and start talking directly with the subjects, much to the chagrin of his market researchers.

Unfortunately, many CEOs have limited direct contact with their customers, and much of the feedback they receive from customers isn't very useful, for three reasons. First, too much of it feels like a massive game of telephone: it's hard to know if the unfiltered truth is coming through. Second, consumer research often requires trading off depth for breadth. Do you trust the data from a snazzy, emotive, and authentic ethnographic video of a few specific consumers, or do you trust the power of aggregate data from thousands of customers, even if that data is one dimensional and at times difficult to interpret? Third, sometimes the data is so fragmented by the function where it came from (e.g., from marketing vs. R&D) that it is hard to get an integrated picture of what to do next.

One solution to this problem: help CEOs really hear their customers by using crayons, colored pencils, and cartoons. We refer to these as "psychological drawings." We ask consumers the same kinds of questions that companies normally ask, but we use pictures. We give consumers simple instructions like, "Draw me a picture of a person, not you, but someone else who is having this specific problem or issue." Or we will say, "Draw me a picture of Brand X. Imagine Brand X comes to life and is able to think and speak." It's amazing what consumers draw, even the ones who are self-conscious about their art skills. The results can jar our CEO clients and spur new thinking about strategy.

For example, a major pharmaceutical company discovered that consumers' incredible loyalty to one of its OTC products had very little to do with its product efficacy or branding. The drawings revealed that its most loyal consumers didn't believe the product really worked, but they were

so desperate to solve their medical issue that they were afraid to stop using the medicine, despite these doubts. One consumer's cartoon depicted the brand secretly thinking: "Yes my clinical results are tenuous, my commercials are overhyped, and my results are marginal. But you have no other option. Do not try to stop using me, or I will punish you." This cartoonist had just spent two hours describing her loyalty to the brand in a focus group.

After senior managers recovered from shock, they quickly concluded that "hostage taker" was not the consumer strategy they wanted. They realized they had a better chance of defending the drug's record as preventative, not curative, and that they should shift their focus toward proving its efficacy on a different part of the body. They shifted their clinical research, reformulated the drug for the new part of the body, and had much better results both from an economic and consumer loyalty standpoint.

Psychological drawings can be powerful because they represent raw consumer output. There's no filtering. The drawings can be intense and personal, as they often contain raw feelings that consumers rarely articulate in traditional research techniques. The best examples of this work are vivid and arresting — they often leap out of a typical PowerPoint presentation filled with numbers and text.

When we ask consumers to create psychological drawings, we impose two requirements to increase the effectiveness. First, we confine this exercise to "super consumers," people who fall into an elite group of extremely well-informed, very profitable, and very influential consumers. This limits the ability of senior management to dismiss disturbing news by questioning the value of a particular consumer's views. Second, we make sure these projects are cross-functional by design, with participation from marketing, sales, R&D, and manufacturing. Having all the relevant functions represented is important, since the results of this work may lead to important strategy shifts.

I've seen psychological drawings help a major industrial company come to grips with a long-standing quality issue that they were in denial over. These cartoons have helped a company realize its pricing strategy was far too aggressive. This visual form of customer feedback has driven big shifts R&D priorities and budgets. In another case, customer drawings helped a CEO realize that a business unit he believed to be commoditized and near-death actually was deeply emotional for a sizable portion of consumers and had significant latent demand to unlock. In a few cases, I've seen psychological drawings find their way beyond the CEO and into board meetings. Psychological drawings are an example of how even the most elementary art can have a big strategic impact.

FEATURED COMMENT

"Great article. Visual representation of key ideas and thoughts can help business leaders better understand various concepts and spur more creative thinking." — Tom Abreu

HBR.ORG INSIGHT CENTER BLOG

Coca-Cola Marketing Shifts from Impressions to Expressions

by Joe Tripodi

A lot of us remember when the role of the CMO was much simpler. Information flowed in one direction: from companies to consumers. When we drew up our plans and budgets, the key metric was consumer impressions: how many people would see, hear, or read our ad?

Today the only place that approach still works is on *Mad Men*. Now information flows in many directions, consumer touchpoints have multiplied, and the old one-size-fits-all approach has given way to precision marketing and one-to-one communications. Perhaps the most consequential change is how consumers have become empowered to create their own content about our brands and share it throughout their networks and beyond. It has changed my role as the chief marketing and commercial officer at Coca-Cola, and the company's approach to consumer engagement as we work to double our business by 2020.

In the near term, "consumer impressions" will remain the backbone of our measurement because it is the metric universally used to compare audiences across nearly all types of media. But impressions only tell advertisers the raw size of the audience. By definition, impressions are passive. They give us no real sense of engagement, and consumer engagement with our brands is ultimately what we're striving to achieve. Awareness is fine, but advocacy will take your business to the next level. (I used to think that loyalty was the highest rung on the consumer pyramid until I became the CMO of Allstate Insurance. There, I saw clearly that so much business was driven through personal referrals and advocacy by individuals for their agent.)

So, in addition to "consumer impressions," we are increasingly tracking "consumer expressions." To us, an expression is any level of engagement with our brand content by a consumer or constituent. It could be a comment, a "like," uploading a photo or video or passing content onto their networks. We're measuring those expressions and applying what we learn to global brand activations and those created at the local level by our 2,700 marketers around the world. For example, in our 24-hour live session with Maroon 5, we captured impressions (the number of online views) but gained tremendous insights from expressions by our consumers — their comments, input on

Joe Tripodi leads global marketing, customer management, and commercial leadership as executive vice president and chief marketing and commercial officer of the Coca-Cola Company.

the song that was being created, and what they shared with their networks.

So what are the keys to winning in this new era of empowered, engaged, and networked consumers? Here are some of the top "expression" lessons we've learned so far:

Accept that consumers can generate more messages than you ever could. Don't fight this wave of expression. Feed it with content that touches consumers' passion points like sports, music, and popular culture. We estimate that on YouTube there are about 146 million views of content related to Coca-Cola. However, only 26 million views were of content that we created. The other 120 million views were of content created by others. We can't match the volume of our consumers' creative output, but we can spark it with the right type of content.

Develop content that is "Liquid and Linked." Liquid content is creative work that is so compelling, authentic, and culturally relevant that it can flow through any medium. Liquid content includes emotionally compelling stories that quickly become pervasive. Similarly, "linked" content is content that is linked to our brand strategies and our business objectives. No matter where consumers encounter it, linked content supports our overall strategy. When content is both "Liquid and Linked," it generates consumer expressions and has the potential to scale quickly. An example of "Liquid and Linked" was our FIFA 2010 World Cup program, which was the largest-ever Coca-Cola activation in history. More than 160 countries used a common World Cup Visual Identity System, a pool of television commercials, and a common a digital platform. All were linked by the common thread of celebration.

Accept that you don't own your brands; your consumers do. Coca-Cola first learned this lesson in 1985 with the introduction of New Coke, but it's become even more important with the growth of social media. As I write this, Coca-Cola's Facebook page has more than 25 million likes (fans). Our fan page wasn't started by an employee at our headquarters in Atlanta. Instead, it was launched by two consumers in Los Angeles as an authentic expression of how they felt about Coca-Cola. A decade ago, a company like ours would have sent a "cease and desist" letter from our lawyer. Instead, we've partnered with them to create new content, and our Facebook page is growing by about 100,000 fans every week.

Build a process that shares successes and failures quickly throughout your company. Increasing consumer expressions requires many experiments, and some will fail. Build a pipeline so you can quickly replicate your successes in other markets and share the lessons from any failures. For example, our "Happiness Machine" video was a hit on YouTube so we turned it into a TV commercial, and we've replicated that low-cost, viral concept in other markets.

Be a facilitator who manages communities, not a director who tries to control them. In 2009, we launched Expedition 206. Consumers voted for the three people they wanted to see travel the world as Coca-Cola Ambassadors, visiting most of the 206 countries where Coca Cola is sold and driving an online conversation about what makes people happy around the world. On every step of their 273,000 mile journey, the ambassadors blogged and created all the content. Our role was to facilitate their journey, which was no small task. We had to give up control of the content, so our ambassadors could share their own experiences. In an era of consumer expressions, seek to facilitate and participate with communities, not control them.

Speak up to set the record straight, but give your fans a chance to do so first. Of course, not every consumer expression will be positive. You have to be part of the conversation so you can set the record straight when you need to. Even better, we've found that our fans make online communities self-policing. When our Facebook site was targeted by an activist group whose members posted negative messages, our fans responded with messages of support for our company, and our fans challenged the use of the community for activist purposes.

Marketing has changed dramatically since Doc Pemberton poured the world's first glass of Coca-Cola in 1886. On May 8, 2011, Coca-Cola and our fans around the world will celebrate our 125th anniversary. While I'll be curious how many impressions our activities generate, I will look most closely to the expressions of our consumers as a better measure of our success in keeping the world's most valuable brand relevant for the next 125 years.

Memorable Events Are the Most Valuable Experiences

by B. Joseph Pine II

When most people use the term *customer experience,* they mean things like being easy to work with, convenient, hassle-free, taking little of the customer's time, and so forth. And while each one can help companies focus better on their customers' wants and needs, they fall far short of the true power of the value that experiences can create.

Economic Experiences

Experiences are a distinct economic offering — as distinct from services as services are from goods. Experiences are memorable events that engage each customer in an inherently personal way and thereby create a memory as the hallmark of that experience. Think of going to a movie, attending a sporting event, enjoying a concert, or visiting a museum. All of these are economic experiences — as are going to Walt Disney World, sipping coffee in a Starbucks, dining at an Ed Debevic's, immersing yourself in an Apple Store, spending time in an American Girl Place, or playing LEGO Universe on your computer.

Some of these companies are easy to work with (I love Apple's immediate checkout capability) while others are not (prepare to be insulted at Ed Debevic's). Some are convenient (such as the nearly ubiquitous Starbucks) while others are not (prepare to travel to an American Girl Place — a trip well worth it). Some are hassle free (just load the LEGO Universe software and go), while others are not (prepare to queue, over and over again, at Walt Disney World). But none of them takes little of the customer's time, which is the whole point: A true experience is about getting your customers to want to spend time with you.

Spending Time

Time is the currency of all experiences. The time that customers spend is what they actually value when they buy an economic experience. If your focus on the customer leads you to spending less time with customers, then you're commoditizing yourself, teaching your customers that interact-

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ing with you isn't worth their time. It is for this exact reason that no industry has more commoditized itself than banking: Banks came to view spending time with customers as costing them money. And now their work on customer experience is all about how to reduce that time as much as possible.

Look, however, at ING Direct, whose purpose — "leading America back to savings" — and true focus on the customer led it to innovate ING Direct cafés around the country, where potential and current customers actually want to spend time with the bank in its engaging cafe environments.

Some experiences such as these are specifically marketing experiences whose purpose is to generate demand for a company's core offerings. These include Apple Stores and American Girl Places but also Procter & Gamble's Charmin Restroom experience, the Heineken Experience, Volkswagen's Autostadt, the Case Tomahawk Customer Center, and so forth. A very simple rule applies: the more time your customers spend with you, the more money they will spend now and in the future.

Providing What Customers Value

Unless you have no higher hope than being a mere commodity, turn your focus from the customer experience to the economic experience. For as people cut back on goods and services, buying them at the lowest possible price and, yes, greatest possible convenience, they seek to take their hard-earned time — and harder-earned money — and spend them on more engaging, more memorable, and more highly valued experiences.

FEATURED COMMENT

"Excellent way to start my morning — thanks for the post. Your work on 'mass customization' and this notion of authenticity in the digital economy is critical in what you call the 'experience economy.' I really appreciate this notion of a 'multiverse.'"
— Lauren Klein

HBR.ORG INSIGHT CENTER BLOG

Why Nokia's Collapse Should Scare Apple

by Patrick Barwise and Seán Meehan

Nokia's inability to field a credible response to the launch of the iPhone in 2007 and Google's Android operating system in 2008 has precipitated a freefall in its share price. Today, Apple is riding high, making this the perfect time for it — and every successful company — to reflect on Nokia's fall and ensure that they don't suffer the same fate.

Not so long ago, Nokia was the disrupter. In 1994, the dominant global provider of mobile handsets was Motorola: its shares were trading at an all-time high and it was seen as an outstanding innovator and even described by a senior consultant at A. T. Kearney as "the best-managed company in the world" — not so different from Apple today. By 2000, Motorola's global market share had collapsed from 45% to 15%, while Nokia's had grown to a market-leading 31%. Nokia had won by promising, communicating, consistently delivering, and relentlessly improving straightforward, relevant customer benefits, in line with its easily understood brand promise, "connecting people."

Although Nokia introduced few radical new products, in the 1990s it was a bold, innovative company in broader business terms — more than most people realize. Previously a straggling and struggling conglomerate, it bravely focused 100% on mobile communications, was an early adopter and driver of 2G technology, and quickly became a recognized world leader in both supply chain management and brand-building. It was the first handset manufacturer to target the bottom two-thirds of the global income pyramid as well as the top one-third and among the first to understand the importance of ease of use, aesthetic product design, and that handsets were as much lifestyle as technology products.

Motorola missed most of these market trends, was slow to invest in digital (it was a classic victim of the innovator's dilemma), and dissipated its efforts on a bewildering array of technologies, product designs, and brand messages. As the failures piled up, so did the stories of mounting bureaucracy, backstabbing, and top management "living in a different world." Effective execution became harder and harder, creating a vicious cycle of falling behind in the market, losing money, canceling projects, and shedding staff, all of which further damaged its ability to execute. Motorola is finally

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attempting a comeback with handsets using Google's Android operating system, but is now only a minor player.

Over time and with success, Nokia too lost some of its ability to stay in touch with, and adapt early to, market trends. In particular, just as Motorola missed the switch to digital, Nokia failed to see that the long-heralded mobile Internet was now, at last, a practical option. In 2004, three years before the iPhone, it rejected a proposal to develop a Nokia online applications store.

Finally, after a wholesale change of top management, Nokia is now responding vigorously to Apple's and Google's challenge. It is phasing out investment in its own Symbian operating system and collaborating with Microsoft to try to create a powerful "third force" in smartphones. Making this work will be hard, not only for technology and marketing reasons — although the challenges here are huge — but also because of the disparity in size and culture between Nokia and Microsoft.

Why should Nokia's problems scare Apple, the world's most admired company with a stellar record of product innovation, design, branding, customer satisfaction, and business performance ever since Steve Jobs rejoined it in 1997?

The immediate answer — of which Apple is well aware — is that a host of handset manufacturers using Google's Android operating system are outpacing it in the smartphone market, threatening to make Android the dominant standard for application developers, network operators, and consumers.

Less obviously, Apple's success may have left it less open, less sensitive, less flexible, and less responsive. The signs are there. When iPhone 4 users complained of poor signal strength, a normally highly tuned-in Steve Jobs responded in a manner many regarded as ungracious, advising customers to hold the device properly and offering a very non-Apple "patch" (a form of a rubber band) to anyone who asked for one.

There was also widespread shock and disappointment when Jobs announced that Apple would take a whopping 30% cut of content owners' sales through the iStore (Google takes 10%). Apple also insisted that the iStore must be able to offer any deal publishers offer elsewhere. Further, Apple will not share customer data with content providers (Google does share these data). Such is Apple's market power that, for now, most publishers have accepted its terms, but they are not happy and will continue to search for a better alternative.

Part of Apple's brand appeal has always been that it was a plucky challenger, first against IBM, then against Microsoft. But in smartphones, the challenger was Google and — maybe — Apple is the new Nokia. If so, this could be the start of a bigger change in terms of whose platform will dominate the wider Internet. Apple should indeed be scared. As Intel's Andy Grove famously noted, only the paranoid survive.

FEATURED COMMENT

"Brand loyalty, like political party affiliation, is no longer a lifelong love affair. The world is now working on 140-character sound bites, and I don't see that improving and neither should the Apples or Googles of today, for they can be the Motorola, MySpace, and Nokia of tomorrow." — Wayne Spivak

Why Retail Workers (Like Me) Drive Customer Experience

by Caitlin Kelly

Few managers would have hired me into the job, at $11 per hour with no commission, as a retail sales associate at a suburban mall. I had no retail experience. I was 50 years old and my last job as a staff reporter for the New York Daily News paid a high five-figure salary.

On paper, I was vastly overqualified, with no appropriate skills — and I was twice the age of my assistant manager. I'd surely have difficulty getting along with my much younger coworkers, many of them college students.

Fortunately, the hiring manager ("Joe," as I call him in my new memoir of working retail, Malled: My Unintentional Career in Retail) saw things differently. He hired me, he told me later, because I was engaging. As an athlete and world traveler, I could easily share my experiences and insights with The North Face's customers.

And I wanted to work for Joe the minute I met him, an easygoing athlete and world traveler with a decade of retail management experience. If he thought I could do the job, why not try?

I'd also applied at Nordstrom, but — as are millions of would-be hourly associates — I was merely seated at a computer and subjected to a standard questionnaire. I was never called for an interview.

Yet within weeks of starting at The North Face, I was easily meeting, and often doubling or tripling, our daily individual sales goals. I was creating positive customer experiences for my employer, for a simple reason: Joe had hired smarter.

As more shoppers arrive in stores with price and product data literally at their fingertips via smartphones, their interaction with sales associates — most still earning a risible $7 to $10 an hour in an era of $4-per-gallon gas — is more crucial than ever. A study conducted by the Verde Group and the Wharton School of business found that the single most critical element in customer satisfaction was not billion-dollar branding, advertising, or extensive use of social media, but the quality of those personal moments when a shopper chooses —or not — to become a paying customer.

Caitlin Kelly is a former reporter at the New York Daily News *who has also written for the* New York Times, USA Today, *the* Wall Street Journal, Glamour, *and other publications. Her new book,* Malled: My Unintentional Career in Retail, *was published this month by Portfolio.*

Getting the right people into these jobs —and retaining them — is a challenge. According to San Diego management consulting firm Peter Barron Stark, which has surveyed 100,000 employees over the past five years, employees seek satisfaction in eight categories, from feeling they're a valued team member to having good bosses. The company has worked with 17 major retailers, including Lowe's, PETCO, and the TJX Companies.

When I asked senior consultant Jane Flaherty how many of these retailers conduct face-to-face interviews, the answer was disappointing. Because these companies receive so many applications, many don't conduct personal interviews for store associate jobs. "Face-to-face is absolutely the best," she agreed, but many companies rely primarily or exclusively on computerized tests and tools like the 30-minute Predictive Index.

James Sale, whose British consulting firm is motivationalmaps.com, sells his services to employers eager to match workers emotionally to the right job. His brief but probing questionnaire drills down to our most essential values, why we work. Employees fall into one of nine primary categories, such as builder, director, friend, or seeker. My primary motivator is creator, which partly explains why Joe was able to keep me far longer than the industry average of three months — by allowing me as much creative freedom as he could in how I did my job.

Jan van der Hoop, cofounder of HiringSmart.ca, a six-year-old firm in Toronto and Halifax, is also passionate about job fit: "If the fit isn't right, nothing else matters," he says. And studies have found that fewer than 30% of workers are fully engaged at work because of poor fit.

Retailers can profit if they engage and retain the right set of workers on store floors. How? Pay them better. Offer worthwhile bonuses, significant raises, and commission. Give them clean, well-designed stores where workers on the floor also have a say in choosing stock or merchandising it. Consistently ask for, and listen to, their feedback. Reconsider the use of "secret shoppers" whose primary task is finding fault, which often lowers morale. Promote your best people, and train them in the necessary skills. Ambitious workers seek, and need, new challenges.

This is not the time to be hiring by computer quiz. This is the time to value your lowest-wage workers and treat them as the business partners they are, with the respect and warmth they deserve. These frontline workers are the final and most critical final link in your global supply chain. Their skills and enthusiasm can make — or break — your business.

FEATURED COMMENT

"Great post — re-emphasizing the importance of frontline employees to the well-being of the retail business, especially retail businesses that cater to shoppers with large sums of disposable income." — Dan

Customer-Centric Continuous Improvement

by Brad Power

Improving customer value continuously is difficult in almost any organization. That's true partly because so many organizations are still organized around functional silos, which are managed to optimize their own performance rather than to deliver value to customers.

If internal feuds don't sabotage things, process attention deficit disorder will. An astonishing number of executives think of service improvements as the slow, boring route to competitive advantage.

Then there's a third killer of continuous improvement: the performance management system. A single-minded focus on next quarter's numbers is sure to crowd out costly, ongoing investments in process improvement.

Leading organizations use some powerful long-term techniques to get around these problems. I categorize these as tools of the heart, head, ears, and feet.

Inspire people to improve customer value — Heart. Organizations whose people share a clear sense of who they are and the impact they are trying to have on the world can overcome internal barriers to improving customer value.

For example, hospitals attract employees who care about people, want to provide better patient care, and are proud of their professionalism. They aren't motivated by cost reduction, and they aren't likely to embrace cost-saving approaches. But they will enthusiastically adopt approaches that eliminate waste and improve patient experiences.

Focus on achieving a distinctive customer value proposition — Head. Not all organizations take the same approach to creating customer value, nor should they. Having a clear strategy helps an organization focus its efforts. One strategy is to eliminate inefficiencies and waste so that you're providing consistent, reliable, low-cost services. Another is to tailor your offerings for each individual customer, based on deep knowledge of her unique needs. A third is to offer cutting-edge, technically innovative products and services.

Brad Power is a consultant and researcher in process innovation. His current research is on sustaining attention to process management — making improvement and adaptation a habit (even fun?). He is currently conducting research with the Lean Enterprise Institute.

I once helped the Dana-Farber Cancer Institute define its customer value proposition; one of the organization's objectives turned out to be world-class service delivery. This understanding, in turn, led to a concentrated focus on improving the process for scheduling patient appointments.

Build online communities with customers to drive product and service improvements — Ears. Online customer communities (interactive websites where customers collaborate with the organization and one another) are a relatively new phenomenon. According to my friends Vanessa DiMauro of Leader Networks and Bob Buday of The Bloom Group, these communities can help organizations tap into customer trends and thereby develop better products and services.

In September 2009, the Palladium Group, founders of the Balanced Scorecard, launched XPC — The Execution Premium Community for senior strategy professionals worldwide. It now has 2,700 company members who can access Palladium's resources around the clock, share knowledge and experiences, and join in discussions with Palladium Group strategy consultants. The community has helped the Palladium Group understand which topics customers need help with, to gather ideas about what new offerings might look like, and to test those offerings before marketing them broadly.

Take a personal interest in improving processes to meet customer expectations — Feet. Employees learn what managers value by watching what they spend time on. If they see you listening for and solving customer problems, they'll follow suit.

In my post What the C-Suite Needs to Do for Process Improvement, I described how Jeff Bezos and other Amazon.com executives spend time listening to customers' problems and visiting distribution centers. Mickey Drexler, CEO of J. Crew (and CEO of The Gap during its go-go years), is famous for anonymously visiting his stores to observe and talk with shoppers and staff. He personally answers shoppers' emails and telephone calls and makes at least five store visits per week.

Continuously improving processes to deliver more customer value often conflicts with optimizing departmental performance or delivering aggressive short-term returns. But there are powerful techniques that can leverage an organization's heart, head, ears, or feet to better connect it to customers. Different companies will find different approaches work better for them, and smart ones will use a combination.

What systemic approaches to improving customer value have you seen organizations build? Did they play to employees' hearts, heads, ears, and feet? Have you seen an organization manage more than one approach at a time?

FEATURED COMMENT

"Strong article. Only seldom is a connection is made between the internal focus on process optimization and the external focus on customer value. This should be higher on the agendas." — Peter Sparreboom

How American Express Transformed Its Call Centers

by Jim Bush

In the not-so-distant past, it was standard practice in customer service to hire only those candidates who knew how to follow scripts, were familiar with the necessary technology, and had several years' experience in another call center.

But a few years ago, American Express reexamined its call-center strategy. We recognized that the people in our call centers are the front line of our business and interact with customers every day. We also recognized that customers know instantly when a service professional really cares, is listening, and takes accountability for addressing their needs. We began to ask ourselves whether we were taking the right approach to hiring.

We looked at what distinguished our best performers. We determined that they truly "get" our brand, love to build relationships, are able to empathize and connect with customers over the phone, and have a passion for delivering exceptional service. We decided to focus on these abilities, which hadn't always been taken into account during the hiring process. We decided not to worry so much about candidates' previous call-center experience. We took our cue from that old basketball philosophy that "You can't teach 7 feet."

We widened our recruiting focus and began targeting employees of service companies that hadn't traditionally been paths to call centers, to say the least. We recruited from top-tier hotels, cruise lines, and customer-centered stores.

One challenge we faced is that the intangibles we are looking for don't always show up on résumés. To attract the right candidates, we changed the job descriptions to make clear that relationship skills are more important than the positions' purely transactional elements.

Another issue was keeping our new hires happy. We set about creating an environment where employees are paid for the value they provide to customers. That meant measuring performance not according to what managers think, but according to what customers say about us every day. The vast majority of employee performance evaluations are now tied directly to customer feedback,

Jim Bush is the executive vice president of World Service at American Express.

which also drives compensation. Employees can earn an incremental 25%-35% of their base pay if customers are satisfied.

Since we began our new approach to hiring, we've seen substantial improvements in customer satisfaction and the percentage of customers who say they would recommend American Express to a friend — key metrics we measure ourselves against. Our service margins are up approximately 10% since we started our reinvention, and between 2006 and 2009, U.S. employee attrition was cut in half.

The new hires have also had a powerful effect on our organization and our customers. There is an even greater sense of shared purpose and passion when it comes to service, and the new hires are driving greater customer engagement and loyalty. When a company is looking to stand out, it needs to go beyond the boundaries and limitations of the traditional job description to get the right people in the door.

FEATURED COMMENT

"Jim's post is excellent. American Express uncovered the secret to hiring the right people. As a thought leader in customer satisfaction and retention, but more importantly as a customer of American Express, I can tell you that the service is not only outstanding on every contact, but each contact with a representative helps build or enhance the customer/card relationship." — Richard Shapiro

HBR.ORG INSIGHT CENTER BLOG

Welcome to Creating a Customer-Centered Organization

by Dan McGinn

Earlier this month, I had a problem: I could hardly hear callers on my iPhone. "Could you please SPEAK UP," I'd yell, trying to discern their mumbles before giving up and redialing from a landline.

This absurd telephonic ritual went on for a couple of weeks, and I assumed it was a hardware or software glitch. But my annoyance was surprisingly minor, for a simple reason: at a nearby mall, there's an Apple Store equipped with one of those ballyhooed Genius Bars. If the problem didn't go away, I figured, I could always stop in and get a genius to fix it. Just knowing that no-cost, low-hassle fix was available made the situation less irritating.

Apple's stores in general, and its Genius Bars in particular, have become an oft-cited example of the lengths to which companies are going to improve the customer experience. Writing on HBR.org last fall, Adam Richardson defined customer experience as "the sum totality of how customers engage with your company and brand, not just in a snapshot in time, but throughout the entire arc of being a customer."

Over the next month, HBR will examine this topic — how managers are turning their companies into customer-focused organizations — in depth. This subject is a hot one in c-suites at the moment. That may not be a good thing: as Forrester analyst Paul Hagen writes in his post analyzing the growth of "Chief Customer Officers," some observers worry it's simply the latest fad, a flavor-of-the-month management fix that will have limited long-term impact.

This doesn't appear to be the case at companies with bottom-line evidence that customer-centricity is transforming their businesses. In posts we'll publish over the next month, readers will learn how American Express began using out-of-the-box hiring strategies to dramatically increase the effectiveness of its call centers. You'll read the account of a journalist who became a stock-floor employee at a mall-based retailer, and argues that hiring and retaining these front-line workers are the key to making positive connections with customers. We'll catch a glimpse of cutting-edge methods to measure and improve the customer experience — including a research experiment that replaces 20th-century survey research with real-time, high-tech feedback techniques done via text messaging.

Dan McGinn is a senior editor at Harvard Business Review.

The growing obsession with customer excellence is driven, in part, by technology. Today customers can obtain and exchange more information about the good and bad of their encounters with companies than ever before. (Here, the obligatory links to Yelp and the United Breaks Guitars video.) That gives companies a great incentive to work harder to make customers happy — before, during, and after their purchases. The focus on experience is also a function of economic development. In the developed world, where homes already overflow with physical goods, much of what we spend our money on — mortgages, life insurance, cable, or Internet service — are intangible, commodity-like services that don't really enter our consciousness unless something goes wrong. And when problems happen, a single interaction with a website, a help desk, or a service technician can have a huge influence on how we regard a brand — and whether we choose to keep spending our money with it.

As always, our hope is this special series of posts will become a dialogue. As regular readers of HBR.org know well, the reader comments below the posts can become an engaging conversation, and we'd invite you to participate. How is your company trying to improve the customer experience? What companies do you think do an outstanding job of anticipating and fixing problems?

Of course, some customer problems turn out to be short-lived, as was the case with my iPhone. I didn't require a genius to solve the low-volume problem. After a couple of weeks, I realized the phone's idiot owner (that would be me) had installed a new scratch-guard on the touchscreen but had neglected to punch out the little oval near the top, effectively covering the speaker. (To friends at whom I repeatedly screamed "SPEAK UP" during recent calls, I can only say: my bad.) Even though I didn't need Apple's assistance in this case, I experienced a positive touchpoint simply by knowing it was there — which, in a roundabout way, is what every company should strive for: make customers feel like you're ready to help, whether they need it or not.

FEATURED COMMENT

"Great article, Dan. In my experience most companies that are really customer-centric started out that way. The great, oft-repeated stories (think Nordstrom, Amazon, Zappos) all seem to come from organizations that have customer-centricity in their DNA. I'm really interested to hear about companies that have successfully made the transition from an inside-out state to an outside-in one. Looking forward to reading more in the series." — Kate Feather

HBR.ORG INSIGHT CENTER BLOG

Experience Co-creation

by Francis Gouillart

Many companies now have senior officers in charge of customer experience. The executives' role is to define the attributes of the customer experience in partnership with their operational colleagues, organize the customer-satisfaction-measurement process against those attributes, and encourage remedial action wherever warranted. What they hardly ever have, though, is an approach to evolve the design of the customer experience, let alone create a new experience.

To develop a new customer experience, companies need a real-time engagement process that encourages customers and employees to devise new interactions between them and facilitates the emergence of innovative customer experiences.

Yes, this co-creation takes time, but there is no alternative. Each customer designs her own experience in the unique context of each interaction she has with the company. So when companies rely solely on market research to design the customer experience, the result is a manager-biased lowest common denominator of customers' expectations.

There are also practical challenges tied to the massive nature of the required market research. Attempting to design a customer experience is like chasing a million shadows. It requires gathering a huge amount of customer insights across a multitude of products, geographies, and touchpoints, and driving a large number of external and internal stakeholders to consensus on what the new experience should be. Doing so in a cost-effective fashion is a practical impossibility.

A far better way to design new customer experiences is an organized process of experimentation where customers and company progressively evolve existing offerings into new ones. Starbucks took a long time before settling on the customer experience it currently provides. The first stores, originally called Il Giornale, were pompous Italian places where the whole menu was in Italian, customers could not sit down, baristas were fully dressed up, and loud Italian opera music hindered any socialization.

Francis Gouillart is president of the Experience Co-Creation Partnership, a management education and consulting firm in Concord, Massachusetts, and is coauthor of The Power of Co-Creation: Build It With Them to Boost Growth, Productivity, and Profits.

New customer experiences grow out of new interactions. The proverbial touchpoints are only the company's side of the interaction. More important is the customer process and how he engages with the organization. When companies let their customer-facing processes co-evolve with customer processes, they inevitably find that the customer experience improves (and so does the experience of the customer-facing employees). It took many years for eBay to figure out that customers wanted to buy and sell cars on their auction site, or were prepared to trade new products rather than second-hand products. This evolved from the creative bending of existing interactions that eBay already had in place.

So how should customer experience managers go about transforming the company's inert touchpoints into live interactions that co-evolve with customer processes? By designing engagement platforms — the physical and virtual places through which customers can interact with the company and other stakeholders in order to design their own personalized experience. The four types of interaction a company typically offers — through its products, its people, the physical places it does business, and the digital sites it possesses — can be made into such engagement platforms.

This means the company needs to make its products interactive, train its people for co-creative dialogue, redesign its physical places for two-way interactions, and open up the architecture of its digital sites to other processes and content that the company doesn't control. Nike puts a sensor in its shoes that lets runners track their runs and has a web platform where data can be exchanged with others. Starbucks encourages a dialogue across all its stakeholders through the highly popular mystarbucksidea.com website. 3M invites its B2B customers to co-create new products with its R&D people live in their corporate labs. Apple invites third parties to develop new applications for its iPhones, iPads, and iPods.

Companies are generally unprepared for this transformation to experience co-creation. Most product development groups continue to design non-interactive products. Company people in call centers and company stores still generally follow company narratives. Most corporate IT departments and suppliers are trained in one-way project-management techniques incompatible with true engagement-platform development. Herein lies the transformational challenge customer experience managers will face as they become customer-experience co-creators.

FEATURED COMMENT

"Perhaps people have yet to realize how easy — as well as how important — it is to include customers. Social media offer many ways to 'listen' to customer feedback. The major roadblock here to both better customer relations and more sales is a mindset that communication is one-way, from business to customer, and feedback takes a long time. It doesn't any more, thanks to technology."
— Gerist Engel

HBR.ORG INSIGHT CENTER BLOG

The Rise of the Chief Customer Officer

by Paul Hagen

The customer's voice has a new champion sitting at the highest levels of power in companies. Whether firms call the position Chief Customer Officer (CCO) or some other label, these individuals serve as top executives with the mandate and power to design, orchestrate, and improve customer experiences across the ever-more-complex range of customer interactions. The role exists in B2B and B2C firms as diverse as Allstate, Dunkin' Brands, USAA, Philips Electronics, FedEx, the Cleveland Clinic, and SAP.

Who are these new customer experience executives — and why do companies appoint them? Over the past five years, we have followed the rise of customer experience efforts from small outposts to central players in executing company strategies, especially as firms have faced growing challenges in maintaining meaningful differentiation based on product innovation alone. This past year, we gathered data on 155 CCOs, surveyed a panel of customer experience decision makers from large North American firms, and conducted in-depth interviews with CCOs from both B2C and B2B companies. In our recent report, "The Rise Of The Chief Customer Officer," we found that:

Titles can vary. While many of these executives hold the title of chief customer officer, others go by names like chief client officer (at OptumHealth), chief experience officer (at Cigna), executive vice president, member experience (at USAA), or chief global customer and marketing officer (at Dunkin' Brands).

Senior leaders are in a new position. These individuals are new to the job and typically are the first to hold the position. Just over 80% of CCOs have spent two years or less in the position and 55% have one year or less on the job. The majority are internal hires who have a significant history at their companies: median time at their firms is nearly eight years. A third of the CCOs previously held division president or GM roles, and almost as many worked in a marketing and/or sales position. About one quarter of these CCOs formerly held operations positions.

Paul Hagen is a principal analyst at Forrester Research where he serves customer experience professionals.

They have power and influence resources. Three-fourths of those we examined sit on the executive management team within the company. Even if their teams are small, their voice on the executive management team means they have influence over how the company prioritizes and spends resources.

It's not just about fixing problems — it's about accelerating growth. While some firms turn to a customer experience leader to fix issues that are creating legions of unhappy customers, most focus on the desire to accelerate growth, better integrate acquired companies, or shift priorities for a changing competitive environment. Sometimes it's new leadership that spurs action, other times efforts percolating within companies capture executives' attention.

Consider one example: The Boeing Training & Flight Services division, a 1,500-employee group at The Boeing Company that serves 500 airline customers in over 90 countries, sought to accelerate growth by reorganizing around the customer. CCO Roei Ganzarski defined the division's breakthrough moment as "the realization that, in order to continue growing successfully, we needed to be more focused on our customers than ever before. Our organizational culture wasn't optimal to say the least. Our operations departments were focused on our products and services, our finance teams on collecting payments, and our sales and business development teams on meeting short-term revenue goals. But no one was looking at things from the customers' holistic perspective. We knew we needed to change our culture to better serve the one reason we all exist — our customers."

Not all CCOs have operationally structured configurations like Boeing's Training & Flight Services division. In many more cases the CCO runs a smaller customer experience team that acts in an advisory or change management role to other parts of the organization. Customer experience executives like Trina Evans at KeyBank and Marti Woods at Deluxe have fewer direct reports and smaller budgets, but sitting on the executive management teams they exert significant influence over budgets and priorities.

With the growing interest in customer experience, some CCOs worry that companies will rush too quickly into creating the position before building an environment for them to be successful. The CCO from a major software company said this: "I worry about this as a role ... it's in vogue and many companies will hire one because they think they need one. In three to five years, I'm afraid we may see lots of flameout because they weren't given the seniority or authority to make a difference."

CEOs considering a CCO should establish three preconditions for success: a strategic mandate to differentiate based on customer experience, a portfolio of successful projects that create buy-in and a cultural maturity in the organization, and a uniform understanding on the executive management team for what the position can accomplish.

FEATURED COMMENT

"Good article and prescient comment from the 'CCO from a major software company.' The success/failure of these initiatives (if indeed they last past the new shiny toy phase) will be if those positions are given power and budget to protect customers and advocate on their behalf. Too often budgets are allocated solely to growth initiatives at the expense of customer initiatives. When companies realize the two are not mutually exclusive, CCOs will have a better chance to succeed." — Andy

WEBINAR SUMMARY

Unleash the Power of Marketing—to Drive Innovation and Profit

by Ranjay Gulati with Angelia Herrin, Moderator

OVERVIEW

When markets experience commoditization, what do companies do? They proclaim "customer centricity" and try to differentiate themselves in multiple ways. But few companies truly know how to become customer centric and most don't pull it off.

Genuine customer centricity is "providing innovative solutions to customers' unique problems." That requires knowing customers and markets far more deeply than most companies realize. There are ways to achieve deep customer understanding, requiring humility and curiosity. There are ways to turn customer insights into innovative solutions customers will pay for, requiring bridging internal silos.

One corporate function is well positioned to be accountable for customer centricity: Marketing. That would mean a reinvention of the marketing function as marketers become not just enablers of value creation but producers of it.

CONTEXT

Professor Gulati explained what genuine customer centricity looks like, why it matters more than ever, and how organizations can achieve it.

"Companies think: 'Maybe if I love my customer enough, I can get price stabilization.'"—Ranjay Gulati

KEY LEARNINGS

In a commoditized environment, customer-centricity matters to companies more than ever.

Customers today have more information and choices than ever before. With more information and choices, the distinctions among options offered in a market can blur; competing offerings can all look the same. Price stands out as the most significant difference. Meanwhile, commoditization is flooding markets with low-cost products (and even services) that are over the "good enough" bar to satisfy consumers. The low-price leaders in markets are thriving while the traditional market leaders are struggling to differentiate themselves.

As this occurs, companies are trying to compete on every aspect other than price: brand, efficacy, accessibility, service. But to consumers, these simply are not as relevant as price. The cacophony of marketing voices proclaiming customer love reinforces the impression of sameness.

High-end leaders in commoditizing markets do need to stand out from the crowd, but via an offering that provides consumers with relevant and significant enough value that they are willing to pay up for it. That requires understanding customers more deeply than companies realize. Most companies claim to be customer focused, but few really know what true customer-centricity looks like or how to achieve it.

Customer-centricity holds the key to profitable growth in rapidly commoditizing markets. Consider: at the center of all business is a simple equation: **Profit = Volume x Price – Cost.** When price is falling, the only levers to drive profitable growth are volume and cost. Costs can't be lowered as fast or as much as a market's prices can drop. Best case: temporary margin stabilization before prices fall again owing to commoditization forces.

So, volume is the lever that must be used. But high-end market leaders aren't able to boost volume by competing on price. Most won't and/or can't remake themselves as low-cost competitors. That is because "businesses are cost structures looking for customers."

The key is driving volume up via differentiation, as most companies realize. Where they go wrong is striving for differentiation via "the great corporate giveaway," offering stuff that consumers don't much want. That drives up costs while conditioning consumers to expect free features.

So either strategy — competing on price or pursuing differentiation without offering consumers relevant value — lands high-end companies in the "commoditization trap" with low prices and a high cost-to-serve (see graphic).

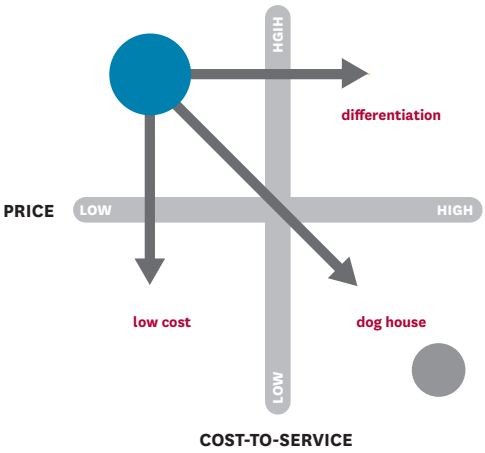
Few companies know what genuine customer-centricity is or are able to achieve it.

Ten years ago when Professor Gulati began researching customer-focused companies, he started by looking at hundreds of companies lauded by the media for their focus on customers. That list dwindled to just 12 truly customer-centric companies; many firms had employees who insisted that their companies were not customer centric. The 12 that remained were the only ones that Professor Gulati, after much investigation, thought deserved that characterization.

Evidence that these 12 were different in a value-creating way can be seen in their stocks' dramatic outperformance from 1999 to 2009. Collectively, they returned 134% to shareholders versus the S&P 500's negative 0.6%. Sales growth was 233% for the 12 versus 10% for the S&P 500.

Why do so many companies profess customer focus, recognizing its importance, and yet fail

Commoditization Trap



so miserably to achieve it? Isn't that the stuff of Marketing 101?

The problem: most companies don't really know their customers or markets well enough to anticipate behavior.

Reasons they fail:

- **Over simplifying the process of knowing the customer.** They think customer-centricity is about CRM or customer service or listening to the customer or customer segmentation. Those tools are merely starting points, yielding relatively superficial insights that don't approach an understanding of customers' thought processes.
- **Not realizing that customers' attitudes toward products change constantly** depending on the choices they have, the information they have, and their private price/value calculations. When sales volumes drop in response to such shifts, companies are often caught by surprise.
- **Not realizing how fluid what customers value can be.** In dynamic markets, the line is constantly shifting between product/service attributes that are purchase motivators and factors that are basic expectations that can be demotivators if absent, but whose presence doesn't drive purchase decisions. Cell-phone range was once a purchase motivator; now it's an expectation.
- **Fixating on their own products/services.** Most companies pursue customer insights through the lens of their own offerings. They ask narrow, product-focused questions like, "Do you like my lettuce? Do you like the packaging?" More revealing would be broader, open-ended questions such as "How do you like to eat? What's dinner time like in your household?" Only by understanding customers' life struggles and challenges can companies connect the dots between what solutions customers need and company capabilities to provide them. Notably, it was not one of the big lettuce producers that launched the fastest-selling grocery product in the last five years: chopped, washed, bagged salad (priced at five times the cost of the ingredients). A lettuce-focused line of questioning would never have led to the insights that harried parents want nutritious food that is fast from refrigerator to table, packaged to last, sized right for no leftovers, and stackable in the refrigerator, or that white-collar folks prefer not to get their hands dirty.
- **Lacking humility and curiosity.** Humility is necessary to admit that one lacks answers and curiosity is necessary to pursue broad, open-ended lines of questioning. There has to be genuine interest in customers as people to empathize with their struggles.

Shallow customer understanding prevents companies from finding a win/win value exchange. Too often, company/customer relationships are characterized by too much "push" of products by the company to the customer or too much "pull" from the customer, with companies doing whatever they ask. Customer-centricity integrates these extremes. Genuine customer-centricity means: "Providing innovative solutions to customers' unique problems."

Becoming customer-centric requires a reinvention of the marketing function.

Narrowly focused functional silos prevent companies from gaining the perspective of both customers' needs and company capabilities that are needed to see innovative solutions to customers' unique problems. Breaking down silos and rebuilding more open structures isn't practical. But bridging silos is.

One function needs to "own" the challenges of customer-centricity, including connecting the dots between what customers need and what

"Unleash the Power of Marketing—to Drive Innovation and Profit" with Ranjay Gulati and Angelia Herrin was broadcast live online April 29, 2011. This webinar summary was created for *Harvard Business Review* by BullsEye Resources, www.bullseyeresources.com.

company capabilities can deliver, and bridging silos to get ideas implemented. Among the functions, marketing is singularly positioned to play this role. Marketing already has a foot in the customer's world and a foot in the company's world; it's the only "bilingual" department.

But to take on this critical work, marketing must change. Marketers' identity must change. Typically, marketers see their roles in the company too narrowly to be the catalyst for product/service innovation and execution. Asking marketers to explain simply what they do for their companies invariably meets with nervous laughter. They see themselves as enablers versus producers of value.

For marketing to realize its calling as owner of customer-centricity, the role of marketing departments and the identity of marketers must be re-envisioned. Marketers need to become:

- **Innovators**—not just product/service innovators but value-creation innovators.
- **Instigators**—instigating new ideas and turning those ideas into action.
- **Integrators**—asking the right questions to produce actionable consumer insights, connecting the dots between customers' problems and company capabilities, and bridging silos to make execution happen.
- **Implementers**—accountable for execution that produces value. GE has transformed its marketing function in these ways; CEO Jeff Immelt refers to marketing as a "line job."

ABOUT THE PRESENTERS

Ranjay Gulati, Professor, Harvard Business School; Author, *Reorganize for Resilience: Putting Customers at the Center of Your Organization*

Ranjay Gulati is the Jaime and Josefina Chua Tiampo Professor at Harvard Business School. He is an expert on leadership, strategy, and organizational issues in firms. His recent work explores leadership and strategic challenges for building high-growth organizations in turbulent markets. Some of his prior work has looked at both when and how firms should leverage greater connectivity within and across their boundaries to enhance performance.

Professor Gulati has received numerous scholarly awards. He was ranked as one of the top ten most cited scholars in economics and business over a decade by ISI-Incite. The *Economist* Intelligence Unit and the *Financial Times* have listed him as among the top handful of business school scholars whose work is most relevant to management practice. He has been a Harvard MacArthur Fellow and a Sloan Foundation Fellow.

Professor Gulati holds a PhD from Harvard Business School; an MBA from MIT Sloan School of Management; a BS in computer science from Washington State University; and a BA in economics from St. Stephen's College, New Delhi.

Angelia Herrin, Editor for Research and Special Projects, *Harvard Business Review*

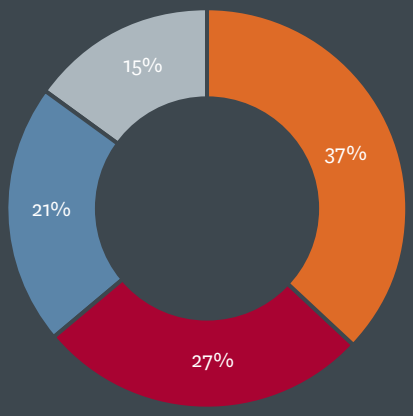
Angelia Herrin is editor for research and special projects at *Harvard Business Review.* At *Harvard Business Review,* Herrin oversaw the relaunch of the management newsletter line and established the conference and virtual seminar division. More recently, she created a new series to deliver customized programs and products to organizations and associations.

Prior to coming to *Harvard Business Review,* Herrin was the vice president for content at womenConnect, a Web site focused on women business owners and executives.

Herrin's journalism experience spans 20 years, primarily with Knight-Ridder newspapers and *USA Today.* At Knight-Ridder, she covered Congress, as well as the 1988 presidential elections. At *USA Today,* she worked as Washington editor, heading the 1996 election coverage. She was awarded the John S. Knight Fellowship in Professional Journalism at Stanford University in 1989–1990.

Poll

HBR.org readers were polled on communication issues.



How strong is your company's customer focus?

- ***Very strong.*** Customer focus is a major factor in shaping strategy.
- ***Strong.*** Customer focus helps drive improvement at my company but does not shape strategy.
- ***Marginal.*** My company provides adequate customer service on a case-by-case basis but doesn't take its customer focus beyond that.
- ***Weak.*** My company pays only minimal attention to its customers.

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