Imperative 2

Know Your Customers Intimately

You subscribe to all the trade journals. You do an annual survey of your customers. The company even has done some market research, a couple of surveys, some focus groups. You sit next to the people on the phones from time to time. You yourself jump in and work with tough customer problems when asked. You regularly talk with the salespeople to learn what they are hearing from their customers, prospects, and suspects.

You *are* close to the customer—right? Perhaps. And then again, perhaps not.

Knowing your customer intimately means more than having a passing acquaintance with the market research of your industry or company. It means spending time listening to, understanding, and responding, often in unique and creative ways, to your customers' evolving needs and shifting expectations. Knowing your customer intimately means that people at *all* levels of the organization find time to meet with, listen to, and learn from customers in highly focused ways. Knowing your customer intimately means knowing each other's business so well that you can anticipate each other's problems and opportunities—and can work on solutions and strategies together.

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"Emotionalizing" the Yardstick: Why Customer Satisfaction Isn't Enough

Customers perceive service in their own unique, idiosyncratic, emotional, irrational and totally human terms. Perception is all there is.

—Tom Peters
Management Consultant

For as long as we can remember the promised land of service-focused organizations—the accomplishment that, once achieved, suggested they'd arrived among the ranks of customer service exemplars—has been represented by two sought-after words: *customer satisfaction*.

When customers report being "very satisfied" or "satisfied" on our surveys, we take it as a sign of their continued loyalty, believing they'll continue to spend their dollars with us and recommend us to others. Yet the truth is that while satisfying customers beats the alternative, it is rarely enough to produce the kind of devoted clientele that will stay committed to your company in the face of new price-slashing competitors, the periodic hiccup in product or service quality, or other threats to their continued patronage. Consider what the word *satisfaction* really connotes. Webster's defines it as "good enough to fulfill a need or requirement," and common synonyms are "sufficient" and "adequate." Hardly the stuff of inspiration.

As service quality researchers have discovered in recent years, measures of satisfaction are often poor predictors of the most important yardstick of any service effort: Will customers not only come back for more, but go out of their way to recommend you to others?

Love That Customer

Consider the perspective of Robert A. "Bob" Peterson, who holds the John T. Stuart III Centennial Chair in Business Administration at the University of Texas, Austin. His opinion, based on his own research, is that "love that customer" is pretty powerful stuff.

For years, Peterson was troubled that so many people were talking about the joys of customer satisfaction, but his research wasn't showing a very strong connection between satisfaction and retention—repeat business. He found that in most surveys of customer satisfaction, something around 85 percent of an organization's customers claimed to be "satisfied" with the service they received but still showed a willingness to wander away to other providers if the mood, or the price, or the color of the advertising banner were right.

Peterson believes that we have undervalued the emotional aspects of customer service; that there is a highly personal, subjective agenda that we fail to ask about in customer research and fail to deal with in service delivery. Only by adding words like *love* and *hate* to our surveys, and having the audacity to stand up to the need to incorporate much stronger feelings than *like* and *satisfaction* in our objectives, can we get a handle on this crucial component of customer loyalty. And the only way to get to the heart of the matter is by getting our information straight from customers: from their own selfish (and sometimes flawed) perspectives, based on their own experiences, expressed in their own words.

The payoff is the kind of in-depth understanding that can help nurture a truly productive relationship—or save one from going bad. Peterson believes that customers with strong feelings about the organization are the most predictable customers. "Customers who feel strongly about your organization—positively or negatively—are the customers *most likely* and *least likely* to do business with you again," he says.

Recent research by the Gallup Organization corroborates and builds on many of Peterson's findings. In a *Harvard Business Review* article titled, "Managing Your Human Sigma"[1] John H. Fleming, Curt Coffman, and James K. Harter of Gallup examined the nature of employee interactions with customers and found that emotions had a significantly larger effect on parties' judgments and behavior than rational thinking did.

The Gallup team found that customers who rate themselves as "extremely satisfied" on surveys fall into two distinct categories: those who have a strong emotional connection to the company and those who do not. In a multiyear study of hundreds of companies and millions of customers and employees, Gallup found that:

- "Emotionally satisfied" customers contribute far more to the bottom line than "rationally satisfied" customers do, even though the latter rate themselves as equally "satisfied" on customer surveys.
- Surprisingly, the behavior of rationally *satisfied* customers looked no different from that of *dissatisfied* customers. In a large U.S. bank in the study, the attrition rate of dissatisfied customers was on par with that of rationally satisfied customers, or those who described themselves as extremely satisfied but scored low on an "emotional attachment" metric. The

[1]John H. Fleming, Curt Coffman and James K. Harter, "Managing Your Human Sigma," *Harvard Business Review,* July-August, 2005.

attrition rate of bank customers who were emotionally satisfied, however, was on average 37 percent lower.

- For all types of companies in the research, Gallup found that emotionally engaged customers delivered a 23 percent premium over the average customer in terms of profitability, revenue, and relationship growth.

Measuring via Customer-Derived Language

Does this mean you should start sprinkling words like "love," "enchanted," "awful," or "hideous" on your customer surveys? What about the implications for organizations with lesser aspirations, where in their minds moving the needle from *"somewhat satisfied"* to *"satisfied"* might represent a quantum leap in service quality? Is it even realistic to think you can evoke customer passion or love when you're selling more pedestrian products or services, those that meet basic needs but do little to excite or inspire?

How customer expectations change based on the nature of business transactions can provide some guidance on the language you opt to use on surveys. Consider what customers experience when they purchase an everyday household product versus when they engage in a more emotion-laden service experience. We buy many of the products we do to meet basic needs. In purchasing a new refrigerator, trash compactor, or bed, for example, we usually want to fulfill simple requirements—to keep food cold, dispose of trash, or facilitate comfortable sleep. To be sure, there are some purchases—a Harley Davidson motorcycle, Apple *Ipod* or women's Manolo Blanik shoes come to mind—that create an emotional bond and may border for some on a religious experience, although such products are in the minority.

Now think about a service experience like a night at a five-star restaurant, a guided whitewater rafting trip, or even your own honeymoon. Recalling your fondest memories of the experience, it's unlikely that the highest measure on most surveys—"completely satisfied"—could truly capture your feelings about the experience.

What separates most service experiences from product purchasing scenarios—and what should act as a guide for how you craft surveys to gauge customers' repurchase intentions—is that the service is performed or occurs in a way that physically involves the customer. Imagine that a customer who needed a trash compactor showed up at the factory to help the manufacturer produce the compactor that the customer ultimately planned to purchase. Sound ludicrous? This is how service happens every time.

For example, if a customer gives a "completely satisfied" rating to his five-star restaurant experience, managers of that restaurant are likely to view that as a service and word-of-mouth-marketing coup. But if applied to the emotional yardstick we've described throughout this chapter, it might truly only be a "C" grade in that customer's eyes, meaning the restaurant fulfilled base requirements but barely passed muster. This explains why, as the Peterson and Gallup research confirms, the majority of customers who leave one organization to go to a competitor say, when asked, that they were "satisfied or completely satisfied" with the organization they just left behind.

Shifting from a satisfaction paradigm to one that more closely matches how humans judge a service experience is only part of the solution. The need for reliability in market research techniques can't be sacrificed even if the thing you are evaluating is more subjective. Trusting one customer's definition of "awesome" to be comparable to another's, for example, is questionable science.

The key to improving the measurement process—to get a more accurate reading of how service experiences impact loyalty—is to seek out and use the language of the customer, not of the researcher. If "awesome" is the word that customers use to describe the service experience, then "awesome" it should be. Such customer-derived language will be inexact and slippery. But one way around that challenge might be to begin asking respondents to recall their very best service experience and use the word or phrase that best characterizes it. That word could then be used for the upper end of the scale for all other questions asked in telephone or face-to-face interviews.

Repeating the process for the lower end provides the same semantic differences in the customer's language. This methodology enables Customer A's "excellent" (his highest rating) to be reliably compared to Customer B's "outstanding" (her highest rating).[2]

Romancing the Customer

Even in traditional manufacturing (and manufacturing-style services), where "careful is correct and rational is right" has long been the managerial axiom, service quality is being recognized as the marketing edge that can differentiate one commodity offering from another. The service tide in which we've all been swept up makes it imperative that we pay increasing attention to whatever it takes, one-on-one and one-by-one, to earn the love and loyalty of our customers.

We don't have the luxury of putting off this transformation. Inspired by their years of experience, well-publicized product quality improvement efforts and heightened service delivery rhetoric alike, customers are getting increasingly emotional, even passionate, about their service experiences. Listen to the raves of the Nordstrom, Cabela's, Netflix, Starbucks, Apple, Amazon.com, and Whole Foods faithful and you'll hear more "love stories" than you'll find on the drugstore paperback rack. Listen, as well, to the tales of anger and woe told by disgruntled customers, and you'll find that novelist Stephen King doesn't have a corner on horror stories.

In this time of passion, how do you use the concept of "customer intimacy" to create long-term loyalty? Start by seeing customer transactions not as a random collection of single experiences, but as a relationship. Relationships in business, just as those in our personal lives, are built on knowledge, caring, and experience. Today segmentation, personalization, and niche marketing are the name of the game in virtually every industry sector. Customers are no longer shapeless, fea-

[2]Chip Bell and John Patterson, "I Can't Get No Satisfaction," *Customer Relationship Management,* July 2006.

tureless mass markets. They're specific, small groups with their own unique view of what constitutes quality service. What they want and how they want it—and how they do or don't get it—add up to an index of "customer love" that ultimately determines if they'll ever come back and do business with you again.

It's an adjunct of the Rule of Psychological Reciprocity: If you don't show interest in your customers, they won't show interest in you. If you don't trust them, they won't trust you. And if you don't care passionately, sincerely, constantly about not just meeting but exceeding their needs, they won't see you as being any better or any worse than any other organization they have done business with. They most certainly won't fall in love with your organization.

In short, "ya gotta love that customer" if you expect them to love you back.

> The more brilliant we become on how we perform our jobs, the more inward-focused we can become and the more we need our customers' creativity. It's difficult for service people on the inside to view our service delivery system with the same naive, unbiased, and fresh perspective our customers possess.
>
> —John Berry
> COO, Virginia Blue Cross-Blue Shield,
> Roanoke, Virginia