

The disarmingly sensible way to find growth and profit from your customer base- the "two birds with one stone strategy"

Reg Price and Don Schultz

Most senior executives agree that their most important source of organic growth is their base of customers. That base is a company's most important asset. Managers with responsibility for customers therefore face pressure from all sorts of angles to:

- Keep customers satisfied.
- Keep them loyal.
- Offer them a great experience.
- Deliver a value proposition to them.
- Make a clear brand promise to them and keep it.
- Constantly exceed their expectations... and so on.

There's no lack of research on the topic, but until now there's been little effort to synthesize the welter of information into a simple and powerful strategic guidance system.

So what do we already know? Look at the most penetrating research on customer satisfaction and it is clear that the vast majority of customers in any base sit in the middle rungs of the satisfaction scale-- anywhere from mostly satisfied through to somewhat dissatisfied.

What we know about these customers is that:

- they make up about 80% of the typical customer base.
- the word that best describes their attitude of mind towards you, the provider' is "ambivalent." Their emotions are not very strong; neither negative nor positive. It is reminiscent of that old saying "the opposite of love is indifference" (as emotions, hate and love are more similar than many people think)
- their behavior is the pretty much the same regardless of their position in the middle 80%. They act apathetically towards you, failing to either actively support you or for that matter leave you. They usually stay as customers, but that is often because it's too hard to change or because they believe none of the competitors are any better.

At both ends of this spectrum are the customers who really count because they are the ones who do exhibit strong emotions and behave accordingly. Proportional to their number in a customer base, they have a big impact. They are either the "outraged" customers who act as active detractors or the "delighted" customers who willingly act as advocates.

Outraged customers are true terrorists. Not only do they take action by defecting, but (if they don't just disappear without a word) they'll depart in a storm that is time consuming and de-motivating for your staff. Worst of all, they'll tell everyone they can about how bad you are. The fewer you've got of them, the better.

Delighted customers act in a way that brings real benefits. Their profit impact of loyalty has been well documented (eg by Sasser, Reichheld). They are usually great to deal with and show willingness to actively support you, such is their loyalty. And, most important of all, they are advertising machines, actively promoting you whenever they can. The more you've got of them the better!

Trouble is, none of this is very new. The gap is that managers get very little direction in choosing what to do about it. Which strategies should be employed to best manage these customers at the extremes best and migrate them out of terrorism and into advocacy?

First, research tells us that the factors that drive outrage and delight are very different. In simple terms, it is not possible to simply move customers from terrorism straight through to advocacy (eg refer Schneider, Benjamin., Bowen, David. E., (1999) "Understanding Customer Delight and Outrage", *Sloan Management Review*, 41, 1, pp.35).

Second, possibly the deepest research ever conducted on customer satisfaction and service quality came up with a remarkably simple conclusion. This research is an oldie but a goodie because the findings still hold true. Unfortunately, its wisdom about what customers really need has gone rather unrecognized:

"Simply put, customers want service companies to do what they are supposed to do. They expect fundamentals, not fanciness; performance, not empty promises." (Parasuraman, A, Zeithaml, Valerie A and Berry, Leonard (1985), A Conceptual Model for Service Quality and its Implications for Future Research, Journal of Marketing, Spring, pp41-55)

Taking these findings into account and given the importance of the two extremes in a typical customer base, the way forward for maximizing a customer asset fits into a disarmingly simple action plan that we call **"two birds with one stone" strategy**.

Deliver the basics

It is hugely influential on the dynamics of a customer base to eradicate terrorism. This means moving as many customers as possible from being strongly dissatisfied by actively identifying and eliminating the key dissatisfiers. To do this, requires that the fundamentals sought by customers have to be performed reliably enough to meet basic expectations. Any problems or crises also have to be resolved well. These are the basics that any firm operating in a market inherits- they are what you have to do to stay in business and avoid customer frustration.

The terrorist customer frustrated by poor performance of the basics is the first bird in the two birds with one stone strategy.

All this sounds pretty obvious, but the reality is that few companies actually have got their sights firmly fixed on this first bird. If you can answer each of the following questions with a resounding yes, then read no further:

- you have an “official” list of the key basics that customers expect of you- expressed in customer language and sourced from customers (not your own list)
- all managers and customer facing staff can recite the official list of basics and know what role they play in ensuring they are delivered on
- there are regular measures taken to assess whether customers believe you consistently deliver on these basics
- there is a cross-functional team appointed as guardian of each basic.

Commentators argued, for example, that K-Mart forgot the basics, like a clean store, well-stocked shelves, helpful personnel and attention to detail. “The stores are a mess” (*The Shopper Report*).

Research by people like Roland Rust, shows us that doing the fundamentals well is not a ticket to true loyalty in itself. It does not delight customers when they get what they expected to get in the first place- it only stops them from being outraged. To delight customers requires a different approach.

Deliver just one “spike”

This means pulling as many people out of apathy/ ambivalence as possible and into the zone of highest satisfaction where true loyalty behaviors like advocacy are exhibited by customers.

The apathetic customer who sees no distinction in your offering is the second bird to take aim at in the two birds with one stone strategy.

Researchers like Kim and Mauborgne on “value innovation” and Crawford and Mathews in “the Myth of Excellence” argue that great companies do not try to be great at everything. Instead they reliably do one (or just a very few) special brand-reinforcing thing(s) that is distinctive, relevant and involving for customers. This is the one thing that your firm stands for that customers can see and they value... we call it a “spike”, but others might call it the single point of difference or the USP. Too few organizations have the conviction or strength of mind to aim to be great at just one thing which they believe is highly important for most of their customers.

A wisdom sometimes heard is that “strategy is as much about what you **don’t** do as it is about what you actually do”. Most managers recognize that it is very hard to say no to something you would like to do. Managers tuned into spiky thinking know that hard-nosed sacrifices of good things are necessary in order to achieve true distinction. Too much wastage occurs from well intended customer satisfaction or quality initiatives that do not sufficiently impact behavior or reinforce the brand. It is usually necessary to say “no” to some prospects to be able to enforce and enhance your distinctive promise to your intended market.

It is hard to justify extra resources going into “delighting”, so smart companies take a reallocation approach by focusing their effort on just a few brand reinforcing initiatives that create relevant distinction. For example, one of the world’s most applauded (and profitable) airlines, Singapore Airlines has put extraordinary focus on just a few of the same things for over 30 years and have become an iconic service provider that (through the Singapore Girl branding) really stands for something in the minds of customers.

One of the most potent tools for achieving this is “customer experience design”. But beware the difference between “THE customer experience” and “A customer experience”. The former is a dressed up version of the traditional idea of customer service and the largely discredited TQM, where the objective is to improve quality at as many touch points as possible. Such a wide ranging approach to delivering quality at so many points runs the real risk of blowing out the costs to serve and dissipating resources.

AN experience on the other hand implies real focus to ensure powerful reinforcement of the brand promise in a memorable and relevant way for customers. The best proponents of this understand that a so-called “spiky experience” can explosively build word of mouth and growth. Look at how:

- Starbuck’s revolutionized the coffee bar with sofas
- Harley Davidson sells attitude as well as motorbikes
- Hard Rock Café offers a dining experience distinctive enough to sell tee shirts about it
- American Girl enchants girls and teaches them how to live a life full of substance
- Google leads you to virtually anything you want to know in 0.2 seconds.

This also sounds pretty obvious, but few companies actually have got their aim focussed on this second bird either. Again, if you can answer each of these selected questions with a resounding yes, then you are in rarefied company indeed:

- There is strong support from the top down for putting extraordinary focus on just one point of difference and stubbornly resisting the temptation to do all things for everyone. This support strengthens even further when there is a crisis or tough times
- all managers and customer facing staff are in no doubt what your spike is and they are clear what role they play in ensuring it is delivered on
- there are regular measures taken to assess whether customers understand what your spike is and whether they believe you consistently deliver on it

One stone: whatever you do- do it reliably

A few practical realities apply.

No amount of delighting will work if there are major dissatisfiers at play. For example getting invited to a sports event won't placate a customer who is waiting on an unexplained outstanding order. Just doing the fundamentals well is usually not enough either. That alone does not create delight and loyalty, it just moves more people into ambivalence.

This means managers serious about maximizing a customer asset must take aim at the two birds together.

Now we are clear about the two birds we must aim at to maximize the value of a customer base- the basics and a spike... but with what... what is the stone?

Generally, managers responsible for customers tend to spend too much time trying to find new, fresh things to promise customers and too little time on ensuring that what they already promise is done consistently.

Reliability is the stone in the two birds and one stone strategy.

Customers judge their providers by how they perform against what they said they would do. Such promises can range from high level and quite implicit brand promises right through to daily personal commitments to make a delivery at a certain time. Broken promises are commonplace, even endemic, and ultimately create a cynical market where trust is hard to come by. The emerging science of "**promises management**" is the methodology that enables the two birds and one stone strategy.

Expert promise managers know that it is vital that customers clearly know what to expect if they buy from you (making clear, consistent, compelling but realistic promises) and ensure they will be confident that is what they will get (delivering on the promise). For example most managers believe that the power of strong differentiation is the competitive distinction it creates in the market place, but promises savvy people know that the huge benefit is that the customer knows what to expect. As the research said, "performance, not empty promises". Take a look at Volvo Cars or Singapore Airlines for example- it's clear what they promise but they also give customers confidence they will deliver on it. Promises management offers a framework for managers to do this.

To manage promises better seems pretty sensible but few managers act like they truly value reliability- even fewer have a management system in place to achieve it.

The following selected questions will test the promises management performance of your firm. Can you answer yes to?:

- the people who make the brand promise in your firm (marketing, sales, agency) work very closely with those who deliver on it (operations, HR, logistics)
- senior management talk a lot about the importance of doing what is promised at all levels- the brand; with customers; with suppliers/ partners; amongst staff

- there's an unforgiving attitude in the firm toward staff who miss deadlines or are reluctant to commit
- there are specific recruitment policies that place a high value on hiring, recognizing and keeping outstandingly reliable people
- customer research places high importance on understanding their perceptions of consistent delivery against the expected basics and the brand differentiators.

Most importantly, this simple strategy is easy for staff to understand, especially if they know that the key for them is to do a few simple things with high consistency. Customer facing staff members who understand a strategy will more easily buy into it. Without that, customer base initiatives will go the way most do- resources frittered away in a myriad of small uncoordinated and unfocused actions that never really add up to anything.

Reg Price and Prof Don Schultz are authors of the forthcoming book on the emerging discipline called Promises Management entitled "Building Dependability Inc", to be published by Racom Books in Fall 2006. Reg Price can be contacted at reg.price@managepromises.com