

Uncovering Customer Value: Customers are your business, but why is it so hard to stay customer-centric?

By Christopher W. Hart, Ph.D.

Years ago, I read this interesting observation by Peter Drucker about the importance of customers, in his 1954 book, *The Practice of Management*: “It is the customer who determines what a business is. The customer is the foundation of a business and keeps it in existence. What the customer thinks he is buying, what he considers ‘value’ is decisive—it determines what a business is, what it produces and whether it will prosper.”

I’m reminded of these words when I hear business leaders talk about their companies’ need to get closer to their customers, to listen to the voice-of-the-customer, and become more customer-focused generally. Their comments reflect what I call “the customer-centricity gap.”

This gap was evident as I conducted a study of 17 divisions in a multibillion-dollar company, with divisions that ranged from cellular telephone service to defense systems.

One question asked employees from every division was, “What is your perception of the priority senior management gives to customers?” The senior managers from every division gave themselves an average grade of A-. As the level of employees dropped, though, so did perceptions and ratings of senior-management’s customer focus, dropping to a C-’s and D’s at the line level. A profound gap existed between senior management’s self-perceptions and those of the employees in their companies. When I ask managers at other companies if they can identify with these results, inevitably heads nod up and down, not sideways. My conclusion is that a serious credibility gap exists in most corporations.

What I find most interesting is why companies lose their way in this most basic tenet of the free-enterprise system. It’s not a new idea. Few successful companies would be where they are today if they had not been customer-centric at some point. The issue becomes even more perplexing, given the mounting body of research linking customers’ perceptions and companies’ financial performance, as well as the avalanche of articles, books, and training programs devoted to building customer-focused organizations.

If we can fix quality...

Why don’t companies simply recognize, address, and resolve the customer-centricity gap? After all, product quality was a major issue for years. Companies dealt with the problem to the point that outstanding quality is a table stake in nearly every manufacturing business. Without it, a company is playing a very risky game. In businesses where customers are able to switch, which unfortunately for them often isn’t easy, quality backsliders are punished quickly. Further, they could be hammered by third-party ratings and, in an explosively growing area, by what I call “Word-of-Web”—online postings from purchasers and self-anointed reviewers.

So why can't the customer-centricity gap be "fixed" like quality? What is it about customer centricity that makes it such a persistent, chronic problem? Every company's vision or mission statement proclaims the importance of its customers. Nearly every company has launched initiatives to back up the words with action. However, these initiatives, which have transformed a few organizations, typically fall well short of what they were intended to achieve.

February 14, 2006 from PR Newswire. A majority of companies fail to grasp financial aspects of their customer relationships and therefore fail to execute customer strategies effectively, indicates a new global study released by Strativity Group. Their annual global Customer Experience Management 2005 study indicates a decline in commitment to customers and a continuing poor understanding of the value of customers. ***54% of senior executives claim they do not deserve their customers' loyalty.***



Here is a list of causes that have emerged as I have studied the customer centricity problem:

- In large, fast-growing enterprises, even though managers have access to systems and reports that enable them to track customer satisfaction, research results and the like, they become more remote from the direct customer contact that is vital to make customers more than statistics and to give them the ammunition to ask questions throughout the organization that make clear customers' primacy.
- When companies go public, they become slaves to investors' expectations of high-growth and hitting short-term earnings goals. Although customers are the wellspring from which earnings emanate, Wall Street's focus on achieving quarterly financial results will divert management attention to "managing the numbers" at even the most customer-centric firms (unless customers are defecting en masse or the company is being publicly humiliated). It takes very little in the way of examples for employees to feel that customers' attitudes are secondary to the profit numbers that, ironically, are so dependent on them. (I could go on at length about why financial analysts pay so little attention to customer satisfaction – a fascinating and complex issue.) It's sufficient to note that the negative financial impact of not being tuned into customers needs, and consistently meeting them, never is measured by accounting. Accounting is a discipline that, at its root, is focused on, tracking the flow of funds inside a company – not the cost of sales never made.
- In the absence of a model to justify the financial returns from investments to improve service, customer attitudes receive virtually no attention from stock analysts. How else could a company invest serious money in marketing and sales, which brings it customers, but then not invest in the service resources required to build their loyalty into virtually impregnable competitive barriers to competitors?

For example, Nordstrom's stock price jumped after a conference call with stock analysts in which company management explained how

earnings had increased as a result of an inventory-control system that reduced inventory investment, increased inventory turns and chopped the amount of merchandise requiring markdowns. During the same period, the company's rating on the American Customer Satisfaction Index (ACSI) was plummeting. Stock-analysts' reports on Nordstrom that I reviewed for a project I was working on showed nary a comment about this disturbing trend! If one didn't know better, the inescapable conclusion would be that customer attitudes have no bearing on companies' share prices! Although I expect Wall Street's ungodly power to lessen as analysts start to become fluent with the emerging tools for valuing customer attitudes, not only is that time at least a few years off, but companies' executives will have a very tough habit to break when the situation changes.

- Crises and other pressing situations that have little to do with customers absorb organizational energy, pushing customer-centric systems, processes, and priorities to the side—to some extent, anyway. When this occurs, a virtuous organizational habit is broken. And once broken, it's hard to restore. A customer-centric system is not like a factory, where inputs, process steps, and outputs are visible and tangible, and where the consequences of not vigilantly paying attention to every production element are quickly apparent. Erosion in a company's customer focus is like termites that eat away at the foundations of a home, destroying it in silent-but-deadly fashion.
- An organization's leadership becomes engrossed with strengthening internal operations to improve efficiency, reduce errors and so forth. Often major operational areas are outsourced. Again, energy is diverted from activities centered on customers—and the shift is tough to reverse.
- A company enjoys success from new technology or an innovation that customers perceive as offering more value. The result often is focus on creativity and innovation per se, rather than on the customer-centric systems needed to fuel these activities.
- In highly competitive industries, a "warp-speed," first-to-market mentality often takes hold, greatly reducing the emphasis, time, and resources devoted to understanding customers' needs, market shifts and trends, and insuring that customers get what they expect for their money (and giving them great customer service for instances when they don't).
- If a company puts too much focus on making sales, as opposed to building relationships, marketing and sales will focus more on persuading customers to buy what they sell than on new solutions.

Why do companies fall so easily into these traps? Simply put, it is easy to make a commitment to customer centricity, but the effort required to create and sustain a customer-centric organization is very different story.

Building customer centricity into an organization's fabric so that it becomes an ongoing source of competitive advantage entails an enormous range of hard-to-

measure variables. Moreover, it's nearly impossible to measure the loss of positive benefits that might have been gained had a company been more customer-focused. For example, what is the negative impact of an executive missing a customer call scheduled as part of an executive-visit program? No one will ever know because accounting is designed to track the flow of cash in an organization. It doesn't measure, for example, the costs of loyalty not created. That no cash is lost when a customer is lost translates into no entries made in accounting ledgers. The cost of lost sales -- opportunity costs -- is the province of finance. People in finance are loath to place values on intangible, market-based assets like customers, though. The problem regarding customer service is especially acute given the need to devote resources to the many elements that go into creating a trust factory. What is the ROI on a customer satisfaction measurement system? A program designed to attract, hire, train and retain outstanding service people? What is the cost of not putting a review of customer-satisfaction data on the agenda of every board meeting? No one will ever know.

Too many important but easy-to-overlook elements involved in building strong customer-centric systems into an organization's fabric fall through the cracks. Were manufacturers' quality efforts to be substandard or backslide, on the other hand, red lights would start flashing, sirens would go off, and manufacturing efficiency numbers would tank. Increases in defect rates, scrap, field-service expense, warranty repairs, returns and replacements and customer complaints are instantly identified and dealt with. The majority of service defects, on the other hand, don't leave any physical evidence to measure. Rather, their negative effect primarily is invisible damage to customers' attitudes, which metaphorically ranges from minor rips and tears that can be repaired through recovery efforts to attitudinal *fractures* that are irreparable no matter what a company might do to make amends. Compounding the problem of measuring invisible defects to customers' attitudes, their cost literally is impossible to measure if customers don't complain. And even if they complain loudly, few if any companies have adequate financial tools for projecting the return on investments to eliminate their causes.

The paradox is that the perceived importance of customer centricity never has been greater. For example, a 2003 study of information-technology managers showed that the percentage who responded "very committed" to the question, "How would you characterize your company's efforts to satisfy the needs of your external customers?" rose to 69% from 42% the previous year. Yet companies are struggling to put all the customer-centricity pieces together. Efforts are undertaken, but they don't function as a set of gears that have been synchronized to minimize wasted energy and create maximum power.

The starting point is culture. Senior management must place highly visible customer-centric activities at the top of their radar screens. Otherwise, other priorities will take precedence and the company will never enjoy the major profit gains an increasing body of research shows that a loyal customer base creates. Research abounds showing the numerous way that outstanding service boosts profits, offering companies a major source of untapped profits. For example, a landmark study just published in *The Journal of Marketing* gives compelling evidence that links changes in customer satisfaction to changes in companies' share prices.

Reconceptualizing Your Business as a Trust Factory

This idea is central to my argument that service quality in comparison to product quality is lousy. A factory, with its rigorous organization of materials and processes within tangible walls, is a metaphor that sparks fresh thinking about how to produce an increasingly vital intangible asset: consistently great service. What happens, I ask, if you take an ostensibly secondary business activity—the generation of customer trust—and recast it as a company’s primary function? If your company is in the widget-making business, for example, you’re not likely to have a cavalier attitude toward the inputs (raw materials, capital goods, labor) that enable you to make widgets. In your widget factory, those inputs and the systems that process them will receive laserlike attention and serious respect. Likewise, if you see your company as a trust factory, you’ll do everything in your power to manufacture trust of the highest quality and with the greatest possible efficiency. Just as the managers of an advanced widget factory organize their production system around the goal of zero defects, so will you design your operation to achieve “zero trust defects.” And the financial rewards that you reap will easily justify the cost of your investment. Years ago, Philip Crosby coined the phrase, “Quality Is Free.” So too, I argue, is trust.

My research makes clear that within any company’s trust factory, the most critical zones—the zones where “trust defects” are most likely to occur—involve some kind of service.

The Dark Side of Efficiency

One thing is certain: Unless a company has created a “trust factory” where processes are identified, integrated, measured, improved, systematically studied, and so forth, the only question will be the extent to which service inconsistency rears its ugly, ROI-killing head.

The relatively few companies that get service right every time, maximizing customer satisfaction, loyalty and trust while minimizing the waste of unnecessary resources spent to recover from problems, and do everything possible to prevent problems from occurring in the first place. For good reasons, the most storied example of great service is Disney's theme parks. No stone has been left unturned in their effort to prevent errors that cost money and negatively impact guests’ attitudes. Further, they have developed recovery systems routinely used to help guests who find themselves in dire straits that, for Disney, are commonplace situations that can be easily handled. Take, for example, their simple systems for helping guests to quickly locate lost cars in their prairie-like parking lots. Parking attendants simply keep hand-written notes about the times when certain parts of the lot fill up. Guests who can’t find their cars are asked if they can remember approximately when they parked, which they always can – presto! Arguably, no businesses are better trust factories than Disney’s theme parks. (Note that this generality does not extend to other parts of their business. For example, their resorts, which are good but not great?)

Another trust-factory example, one with much more relevance than theme parks to most companies, is Hampton Inn. The company’s ability to provide consistently outstanding service throughout a multi-site service business, where many units are owned and operated by franchisees, borders on the incredible. Using their 100% satisfaction guarantee as a touchstone and catalyst for both the policy and incentive to “get it right and continue doing it right,” has left such formidable competitors as

Marriott's Fairfield Inn and Courtyard in the dust. Given Marriott's well-earned reputation for service excellence, that is **some** accomplishment.

A Counter-Example

Citigroup is now advertising a feature with its new credit cards that enables callers to press zero and speak to a live representative immediately. This amounts to a return to a more customer-friendly system -- that in hindsight never should have been eliminated. Changing to a system that enables customers to talk to live operators without going through Voice Response Unit (VRU) hell is tacit admission that their existing system was suboptimal in satisfying customers. It shows customers' frustration with today's call-center technology. In blunt terms, a lot of customers obviously have been pissed off.

Who knows if Citi's decision was based on the benefits to be gained by giving customers better treatment, the result of internal studies showing customer frustration and anger—or if marketing simply has jumped on a potential point of differentiation to attract competitors' frustrated customers? My suspicion is that it's the latter, for all the reasons underlying companies' problems with customer centricity and, more to the point, that service generally is lousy.

A troubling question: How was a suboptimal system approved and implemented in the first place? The primary reason almost certainly was cost reduction, coupled with the ability to better organize call-center operations. An additional incentive would have been the rush of call-center managers in all industries to adopt VRU technology. Certainly VRU-system vendors pushed hard on efficiency gains and benefits like the ability to automatically track the volume of different inquiries, volume fluctuations and so forth. An interesting question is how VRU salespeople responded to questions like, "What impact does a VRU have on customer perceptions?" No doubt salespeople had this question nailed. "We've found that the effect is good, for several reasons." Any good salesperson would then have been able to reel off a string of customer benefits.

But why didn't the potential for customer frustration and anger surface before VRU systems were purchased? It's tantamount to a company introducing cost-saving technology in a manufacturing operation that changes products in ways that customers think offer fewer benefits and are a pain to use. All manner of negative outcomes would result from such a situation -- and heads would have rolled. In fact, a situation akin to this is what doomed Schlitz beer. The company cut ingredient costs to increase profit margins. The death of the brand was the result.

If one views customer service as an integral part of what customers buy from a company, the idea of introducing technology that makes the customer experience worse is ludicrous. On the other hand, the Citigroup example makes clear the immense opportunity that exists for many businesses by creating an integrated, end-to-end customer experience process that creates and strengthens customer trust.

February 21, 2006 from PR Newswire. Dimension Data, a \$2.7 billion IT solutions and services provider announced the results from its eighth annual Contact Center Benchmarking Report. The report indicated that 2006 is likely to be the year of the customer, with over 75% of respondents surveyed reporting that they are planning to do more to satisfy customers. Among the top issues being addressed are shortening hold times, transferring customer data to agents more quickly and efficiently handling complaints.



Building a Trust Factory

Devoting resources to a customer-centric system amounts to investing in the construction of a virtual trust factory in which the output is trust attitudes in customers minds that give them that most precious of commodities: peace of mind. Seen through a trust-factory lens, customers, both existing and new, are critical inputs and the “output”—trust relationships and customers’ positive attitudes—dramatically influence financial performance through differences in customers’ decisions to purchase, satisfaction, price sensitivity, defections to competitors, share of purchases, complaint behavior, word-of-mouth and interest in new products and services. A well-run trust factory also produces internal benefits that include lower costs, higher employee morale, and greater productivity.

Just as a factory that produces tangible products requires constantly upgraded systems and technology to improve efficiency, quality, throughput and so forth, so too does a trust factory. In particular, everything that falls under the general heading “customer centric” or “customer driven” needs unflinching attention to ensure that sources of “trust defects” are eliminated and that systems for creating customer value are state-of-the-art.

A crucial part of leaders’ jobs is to identify what has to be done, by whom, to build a customer-centric, trust factory—and then to ensure that those who are accountable for the work fulfill their duties.

Many companies have found the idea of becoming customer-centric either too amorphous to translate into concrete action or too broad in scope to implement, or both. It’s an excellent idea, they say, but management needs concrete ways to translate it into action—to “get traction to the road.”

One possible solution is what I call an “extraordinary guarantee” – I elaborate upon this further in the white paper *Extraordinary Guarantees – A Powerful Improvement Catalyst*. Many leaders see powerful guarantees as marketing tools, but fail to realize their capability to create pervasive organizational change. A properly designed and implemented guarantee can be the crucial catalyst to pull together the many elements required to build your organization into a trust factory.

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