

# Extraordinary Guarantees: A Powerful Improvement Catalyst

By Christopher W. Hart, Ph.D.

**M**anagers know intuitively that companies offering the greatest value will win in the marketplace and achieve superior financial returns, and their intuition is supported by formal research. Yet, truly customer-centric organizations are few and far between. It's not that most organizations aren't trying. Rather, the difficulty is finding a way to "mesh" the many internal organizational gears that let customers know they're at the center of the company's existence. In the white paper *Uncovering Customer Value*, I stressed the customer-centric imperative and why so many companies see it as a Herculean challenge.

One solution is the "extraordinary guarantee," a proven, powerful catalyst for creating and sustaining organization wide customer focus while improving operating effectiveness and financial performance.

## Tired, "Unextraordinary" Guarantees

How many times have you bought a product and found a guarantee full of conditions, legalese, and complicated instructions—all in very small print? These guarantees, originally mandated by the Universal Commercial Code enacted by Congress in the early 1950s, were meant to protect customers. In the hands of company lawyers assigned the task of complying with the new law, however, the result was protection of companies, not customers. In meeting the letter of the law while minimizing legal risk, the unintended result was customer "uncentricity."

An extraordinary guarantee, on the other hand, is designed to achieve precisely the opposite effect. My book, *Extraordinary Guarantee*, includes many success stories in which extraordinary guarantees proved to be customer-centricity catalysts. Despite what in some cases are dramatic success stories, though, I'm frustrated by the proliferation of "unextraordinary" guarantees.

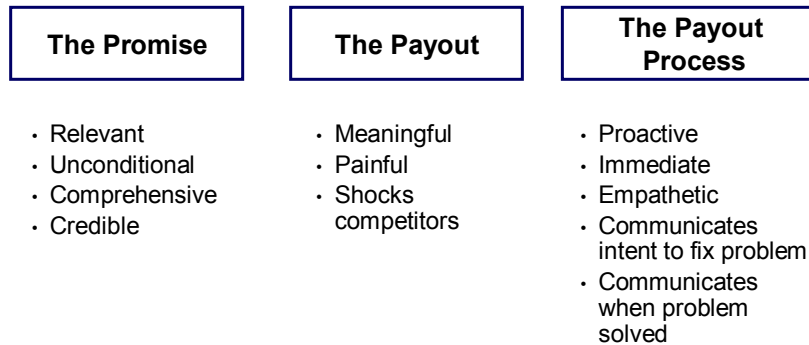
## Three Vital Components

The good news is that in most industries, the opportunity is there for the taking—if companies are willing to do it right. Doing it right means developing a guarantee with three fundamental and customer-centric components: an extraordinary promise, a meaningful payout, and a customer-friendly invocation process.

1. The promise is what a company offers its customers in exchange for their money.
2. The payout is what customers get if a company does not make good on its promise.
3. The recovery/payout process is the way guarantee payouts are made.

While the idea of offering an extraordinary guarantee appeals to almost every company in search of competitive advantage, very few do the job right in all three areas. (See Exhibit A: Three Vital Components.) As a result, they offer guarantees that have little impact on customers, do not improve operations, and are regarded by employees as meaningless.

## Exhibit A: Three Vital Components



### Barriers

The root of the problem is historical. Many of today's guarantees are vestiges of the Universal Commercial Code, supported by minimizing risk and financial departments working to keep payouts to a minimum. Marketing managers find themselves relegated to offering toothless guarantees that are decidedly "unextraordinary."

Another impediment is fear that customers will abuse the guarantee. I remember a controller-type manager at one company crying out: "We can't guarantee customer satisfaction. Our customers would cheat us blind!" But as I stated in an article for *U.S. News & World Report* [Comarow, Avery (1999), "Broken? No Problem. Some companies stand by their products—for a lifetime," (January 11)]: "Companies worry about customers cheating them. In general, cheating's only a problem for bad companies—because customers think *they've* been cheated. Rarely is customer abuse a problem for top companies—and even if it were, the problem can be managed." Granted, every company should be aware of potential abuse and take appropriate measures to manage risk where it's real, but in general, this concern should be channeled into comprehensive efforts to eliminate potential causes of customer dissatisfaction.

Instead of focusing on the potential for cheating, companies should concentrate on the central premise underlying an extraordinary guarantee: If customers aren't satisfied with what they get for their money, they shouldn't have to pay. Period. That is a bold statement, and the basis of an extraordinary guarantee's power to transform an organization.

### Creating Urgency to be Better

The marketing impact comes from an extraordinary guarantee's inherent urgency to make operational improvements that produce greater customer value: its customer-centric catalytic effect. As opposed to piecemeal improvements, an extraordinary guarantee requires an immediate companywide commitment to understanding what customers need and delivering it, systematically improving every functional area that impacts what customers get. A critical point is that an organization will understand the improvement urgency created by an extraordinary guarantee only if it seriously contemplates offering one.

## Reduce Purchase Risk

The greater the customer's purchase risk, the more impact an extraordinary guarantee can have. For example, who hasn't heard a horror story about a systems integration project involving a high-priced consulting firm? No matter how much analysis a customer does, project outcomes will remain uncertain. One exception is Systems & Computer Technology Corporation (SCT), an information technology (IT) services firm based in Malvern, Pa. The firm offers an extraordinary guarantee that in effect says, "If we do not do what we promise, namely to deliver the project on-budget and on-time, we will bear the pain."

Other IT services firms make this claim, but SCT reengineered their processes to minimize payouts, not just because they want to minimize expense, but because they realize their clients want the benefits promised rather than the guarantee payout. They even require the personnel a client proposes for a project to take personality tests. Why? Because they have found that these individuals significantly affect project success. A spokesperson for SCT commented, "With our guarantee, we simply cannot afford to risk project failure."

Properly crafted, an extraordinary guarantee minimizes consumer risk, especially when a company is entering new markets. (See Exhibit B: Customer's Perceived Risk. Checkmarks simply illustrative.) Simply put, it gives customers an offer they can't refuse.

### Exhibit B: Customer's Perceived Risk

	ExG Potential	
	Less	More
Price (relative amount being spent)?	Low	High
Customers' ego/emotional risk?	Low	High
Level of customer knowledge of your service/product?	High	Low
Complexity of purchasing and using service/product?	Low	High
Service/Product's potential impact - positive or negative - on customer ?	Low	High
Customers' perceived time, aggravation risk in event of service/product failure?	Low	High
Risk of "ripple-effect" consequences in event of service/product failure (external and internal)?	Low	High

## Beating Competitors to the Punch

Another good reason to offer an extraordinary guarantee is the assumption that if you don't, competitors will. The first company to successfully offer an extraordinary guarantee forces its competitors into a reactive mode and, in fact, has little to fear because competitors who scramble to match their offer generally are poorly prepared to do so. These reactive efforts often are destined to fail from organizational and process deficiencies that keep them from delivering quality commensurate with what

an extraordinary guarantee promises. Typically, competitors end up offering guarantees that customers find hard to invoke, cost them a lot of money, and ultimately are discredited and viewed as failures.

When considering an extraordinary guarantee, management always wants to know how many payouts might be made. Successful companies address this concern by developing sufficient delivery capability by offering the guarantee to a selected group of customers, thereby limiting the initial risk. A company does not have to roll out a guarantee to all customers all at once and, indeed, this is not recommended.

### **A Valuable Exercise**

Even if a company decides never to offer an extraordinary guarantee, the simple exercise of managers answering the following guarantee-design questions often leads to unanticipated breakthroughs:

- As a customer of your company, what would you expect in terms of end-to-end service and product quality?
- How would you state an ironclad guarantee reflecting your company's commitment to provide this level of quality?
- If your company did not deliver on its guarantee promise, what payout would be required to leave a customer feeling whole?
- What steps should a customer take to invoke the guarantee?
- World-class service requires world-class customers. What would you ask of your customers to help provide the quality promised by your guarantee?
- If your company were to offer an extraordinary guarantee, what operational improvements would have to be made before doing so?

The answers to these questions can have a profound impact on senior management. If nothing else, they focus management's thinking on how good a company in their business could be, and the competitive impact of being that good. Further, answers to the last question pinpoint opportunities for improvement that I find lead to the conclusion, "We need to make these improvements, regardless of whether or not we offer an extraordinary guarantee." Herein lies an extraordinary guarantee's power to be an improvement catalyst.

That, in a nutshell, is the power an extraordinary guarantee and the customer centricity it engenders. The crucial takeaway from this white paper is not whether or not an extraordinary guarantee makes sense for your organization. Perhaps the most important question you could ask yourself now is, "What would we do if our main competitor offered an extraordinary guarantee tomorrow?"

### **About the Author**

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