



The Three "Ds" of Customer Experience

11/7/2005

Eighty percent of companies believe they deliver a superior customer experience, but only 8 percent of their customers agree, says Bain & Company. Here's how to repair the disconnect. From *Harvard Management Update*.

by James Allen, Frederick F. Reichheld, and Barney Hamilton

Call it the dominance trap: The larger a company's market share, the greater the risk it will take its customers for granted. As the money flows in, management begins confusing customer profitability with customer loyalty, never realizing that the most lucrative buyers may also be the angriest and most alienated. Worse, traditional market research may lead the firm to view customers as statistics. Managers can become so focused on the data that they stop hearing the real voices of their customers.

Financial software powerhouse Intuit briefly fell into this trap, despite a history of excellent customer service. In 2001, its Turbo Tax program commanded 70 percent of the retail market for tax-preparation software and 83 percent of the online market. But then it began doing things that annoyed customers, such as upping the price of tech-support calls and limiting software licenses to one computer. Store-based retail growth flattened, and as Web-based tax preparation sites sprang up, online buyers started jumping ship. In 2003, Turbo Tax's share of the online market plummeted.

A recent Bain & Company survey reveals just how commonly companies misread the market. We surveyed 362 firms and found that 80 percent believed they delivered a "superior experience" to their customers. But when we asked customers about their own perceptions, we found that they rated only 8 percent of companies as truly delivering a superior experience. Clearly, it's easy for leading companies to assume they're keeping customers happy; it's quite another thing to achieve that kind of customer devotion.

So what sets the elite 8 percent apart? We found that they take a distinctively broad view of the customer experience. Unlike most companies, which reflexively turn to product or service design to improve customer satisfaction, the leaders pursue three imperatives simultaneously:

1. They **design the right offers and experiences** for the right customers.
2. They **deliver these propositions** by focusing the entire company on them with an emphasis on cross-functional collaboration.
3. They **develop their capabilities** to please customers again and again—by such means as revamping the planning process, training people in how to create new customer propositions, and establishing direct accountability for the customer experience.

Each of these "Three Ds" draws on and reinforces the others. Together, they transform the company into one that is continually led and informed by its customers' voices.

Designing the right propositions

Most large companies are adept at dividing customers into segments and designing value propositions for each one. But those that deliver a truly outstanding customer experience go about the design business in a unique way. In defining segments, they look not only at customers' relative probability but also at their tendency to act as advocates for the company—to sing its praises to friends.

The ultimate goal is to shift ever more customers into the high-profit, high-advocacy area.

Customer advocacy can be summarized as a *net promoter score*, calculated as the percentage of customers who would recommend a company (the promoters) minus the percentage that would urge friends to stay away (the detractors). Because such a simple measure is understandable to all parts of a company, it can serve

to rally and coordinate the entire organization. As described in the sidebar "Thinking Clearly About Customers," the ultimate goal is to shift ever more customers into the high-profit, high-advocacy area.

Of course, the experiences that turn passive buyers into active promoters will vary by customer segment. What captivates one group may turn off another. In formulating segments, therefore, it's important to look beyond basic demographic and purchasing data to discern customers' attitudes and even personalities.

Vodafone offers a good example. The U.K.-based mobile phone company grew rapidly through acquisitions in the 1990s, becoming one of the leading mobile providers in the world. To ensure that its offerings could be effectively delivered to target customers in any country, it stopped categorizing its customers simply according to where they live, as most cellular providers do. Instead, it divided its immense marketplace into just a few, high-priority global segments: "young, active, fun" users, occasional users, and a handful of others.

It then developed targeted, experience-focused value propositions. The "young, active, fun" group was offered Vodafone live!, a state-of-the-art service that provides everything from games and pop-song ring tones to news, sports, and information. Occasional users were offered Vodafone Simply, which, as noted in the Vodafone Group's 2005 annual report, provided an "uncomplicated and straightforward mobile experience." Such clearly delineated service platforms allowed everyone in the organization to understand strategic priorities and focus on innovations that would better serve the segments.

In designing propositions for specific segments, leaders focus on the entire customer experience. They recognize that customers interact with different parts of the organization across a number of touchpoints, including purchase, service and support, upgrades, billing, and so on. A company can't turn its customers into satisfied, loyal advocates unless it takes their experiences at all these touchpoints into account. Design is thus closely tied to the delivery from the very beginning. Planning focuses not only on the value propositions themselves but on all the steps that will be required to deliver the propositions to the appropriate segments.

Delivering value to the customer

The most brilliantly designed and insightful customer offerings can be rendered impotent by poor execution. To ensure effective delivery, the leaders must first create and motivate cross-functional teams—from marketing to supply chain management—to deliver their value proposition across the entire customer experience. Second, they must treat customer interaction as a precious resource. Data mining and customer relationship management (CRM) systems can be valuable for creating hypotheses, but the ultimate test of any company's delivery lies in what customers tell others. The best companies find ways to tune in to customers' voices every day.

One company that's particularly adept at listening to its customers and delivering what they want is Superquinn, the Irish grocery chain. Founder and President Feargal Quinn walks each of his stores' aisles every month, talking to consumers. Twice monthly, he invites twelve customers to join him for a two-hour roundtable discussion. He asks them about service levels, pricing, cleanliness, product quality, new product lines, recent displays and advertising promotions, and so on; he also asks what items they still buy from his competitors and why. Quinn uses what he learns to evaluate store managers and continually improve the company's strategy and its execution of that strategy.

For example, Quinn once learned that 25 percent of Superquinn shoppers were not buying from the stores' bakeries. When he made bakery managers and employees aware of this statistic and began tracking it, they came up with scores of creative ideas to build traffic. Customers soon were enticed to visit the bakery by the

aroma of freshly made doughnuts; once there, they found baskets of warm wedges to sample. Today, more than 90 percent of customers buy at least one item from the bakery every week.

As Superquinn's experience suggests, people staffing the front lines need to be well hired, well trained, and well treated if a company is going to deliver on its propositions.

Customer metrics serve an equally critical function: They allow companies to be sure their delivery continues to meet the needs of the target segments. But traditional metrics, focused on the performance of individual functions, aren't enough; measures have to be crafted to inspire cross-functional collaboration.

One example is net promoter scores: Improving them requires a concerted effort from the front line to the back office. Precise customer service objectives for specific customer interactions can also help to rally the troops. A bank might create a goal of phoning each new customer within one week of opening a checking account; a cable company, within a week of installing a line. Hitting such targets requires specific, coordinated contributions from customer support, marketing, channel management, and finance.

Leaders also find other, informal ways to let customers tell them whether they're succeeding. Superquinn awards its customers "goof points" for pointing out anomalies such as an out-of-stock item, a dirty floor, or a checkout line longer than three people. The goof points provide discounts off future purchases.

Developing the capabilities to do it again and again

Customer value propositions can never be static; they must be subject to regular innovation. It's the same with delivery—*every* company must improve its performance quarter after quarter, year after year. Leaders in crafting the customer experience have established a number of capabilities to achieve this kind of systematic innovation and improvement. They include:

- Tools that aid customer-focused planning and execution. The integrated marketing plan developed by Vodafone, for instance, unambiguously puts customers at the top of the company's strategic priorities.
- Customer-based metrics and closed feedback loops that establish accountability. Enterprise Rent-A-Car tracks customer satisfaction with its rental experience on a five-point scale for every branch, and employees of branches that fall below the corporate average—getting top-box scores 80 percent of the time—are ineligible for promotion.
- Customer-focused management incentives. Net promoter scores, for example, are increasingly used in performance reviews.

Top-performing companies also create processes that seek direct, immediate customer feedback—not simply to ensure that things are going well but also to build in methods of systematic innovation and improvement. SAS Institute, the Cary, North Carolina-based software company, creates a "SASware Ballot" every year, giving customers a chance to vote on a list of potential software improvements. EBay employees known as "pinks" monitor the company's message boards, quickly learning which issues, complaints, and concerns may need attention. American Express calls customers who don't quickly activate their new cards to find out if they're having problems.

Intuit turned around TurboTax's online market-share slide by, in part, institutionalizing its ability to constantly improve its offerings. The company's Consumer Tax Group, which had seen the biggest share decline, created a 6,000-member "Inner Circle" of customers who agreed to serve as a kind of ongoing, Web-based focus group.

People staffing the front lines need to be well hired, well trained, and well treated.

installing, and using tech support.

They supplied basic demographic information, along with their response to the all-important question "How likely are you to recommend TurboTax to friends or colleagues?" They were then asked to explain their No. 1 priority for enhancing service in any aspect of the customer experience, including shopping, buying,

A follow-up question let them prioritize a list of ten suggestions made by other customers.

The Internet software that collects these ideas allows Intuit to segment customers into groups, such as promoters and detractors, according to their priorities and issues. Detractors wanted a new approach to tech support and customer service. Promoters ranked rebate programs as their top priority for improvement. Intuit probed for details: Where rebates were concerned, was it awkward proof-of-purchase requirements, slow turnaround times, or the amount of the rebate that most needed attention?

Thanks to these moves, the Consumer Tax Group was able to redesign its core TurboTax product, deliver it to the customer more effectively than ever, and maintain a mechanism for continually developing its related capabilities. Net promoter scores among both first-time users and veterans rose dramatically, and the company regained market share in Web-based channels and renewed share growth in stores.

It had escaped the dominance trap. WK

Reprinted with permission from "Tuning In to the Voice of Your Customer," **Harvard Management Update**, Vol. 10, No. 10, October 2005.

See the current issue of [Harvard Management Update](#).

James Allen and **Barney Hamilton** are partners at Bain & Company in London. **Frederick F. Reichheld** is a Boston-based director emeritus at Bain.

Thinking Clearly About Customers

by James Allen, Frederick F. Reichheld, and Barney Hamilton

Which customers should you target? If you say "the most profitable ones," you're only half right. It's also important to attract buyers who will act as your company's growth advocates, encouraging others to buy from you. By assessing customer profitability *and* customer advocacy, you can tailor your strategies—and your investments—by segment:

- **High-profit promoters.** These are the customers you can't live without—your core. You want to design and deliver your offerings in a way that expands this group, and to target new buyers who share their characteristics.
- **High-profit detractors.** These customers, often as important as your "core," are sticking around because of inertia or because they feel trapped. They are profitable, attractive to your competition, and unlikely to suffer quietly. Losing them can dent your bottom line and your market share. You need to find out what's irking them and fix their problems fast.
- **Low-profit promoters.** These are diamonds in the rough—loyal customers whose current buying patterns leave money on the table. Tap into their advocacy by offering them additional products and services, but don't alienate them with heavy-handedness.
- **Low-profit detractors.** You can't please everyone. If there is no economically rational way to solve their problems, then help unhappy customers move to other providers.

We have found companies routinely surprised by which customers are high-profit promoters, how much potential for cross-sell exists among low-profit promoters, and how many detractors lurk in their portfolio.

Reprinted with permission from "Tuning In to the Voice of Your Customer," **Harvard Management Update**, Vol. 10, No. 10, October 2005.