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Don't annoy the elephants

CREATING TRUE CUSTOMER RELATIONSHIPS

Companies are spending ever-increasing time and resources on strategies for developing customer relationships, yet customers appear to be more and more critical of how they are treated. The answer lies in understanding what a relationship is, what makes it work and what makes it falter. Customers have long memories and their trust is hard-won.

It's difficult to find any company that does not rank customer care as one of its top issues, and huge sums are spent on Customer Relationship Management (CRM) systems. Strategies to retain customers, build loyalty and prevent churn are the constant subject of board-level discussions, strategic plans and management conferences.

In retail businesses such as financial services, mobile telecoms and utilities, the shift to customer focus has been rapid. Increased price transparency, partly as a result of regulatory changes, competition from new market entrants and increasing customer sophistication have accelerated churn rates and driven relationship strategies up the priority list.

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But are they working? A recent publication by the National Consumer Council[1] suggests not. If you think you're unlucky in experiencing dreadful service, it seems you're not: survey after survey shows consumers think service standards are dropping.

The problem is that many companies are focusing on the wrong things: remarkably few invest efficiently in the right aspects of service. This is often a result of short-term marketing pressures, an incomplete understanding of what customers love and hate, or a dangerous belief that IT is the answer.

CUSTOMERS CARE

The main problem is that many organisations are incorrectly defining a "relationship". Selling someone a kettle doesn't create a relationship. Nor does adding someone to your database. Selling someone a car might, depending on the advice given before the purchase and the after-care service, but junk mail and hard selling are unlikely to. There are three critical elements to a relationship:

- **Trust** – at the minimum, customers need to be confident that they can buy the product they want. The greater the degree of trust your customers have in you, the readier they will be to buy new products from you or even let you select what you supply to them. Trust is built on consistency – only by delivering the same high-quality service and displaying the same behaviours again and again will you get customers to come to rely on you.
- **Connection** - out of sight usually does mean out of mind. It is only through repeated interactions with your customers that you can provide the experiences that build into a relationship.
- **Emotional loyalty** – this is created, over time, by critical events that leave a lasting impression. Like elephants, customers have very long memories of occasions when you let them down, as well as (fairly) long memories of occasions when you went the extra mile. These events may leave far more powerful impressions than the basic structure of the customer proposition.

So what are these defining events? It would be tempting to think that the moment of purchase must be one. However, research repeatedly shows that a greater mark is left on customers' memories by responses to requests for advice before a purchase, or concerns and complaints afterwards. These are the moments at which customers invest the highest amount of emotional energy.

Think about how you feel when a rental car breaks down, a flight is delayed or a mobile phone is lost, and you try to get advice or even just information from the supplier. A company that responds well to these situations can win loyalty; one that responds badly is unlikely to gain a friend, however detailed the booklet describing customers' rights. One sympathetic and helpful answer is worth three pages of customer service desk phone numbers.

1 *The stupid company – how businesses throw money away by alienating customers*, National Consumer Council, February 2006.

UPS AND DOWNS

Such critical events can, therefore, have positive or negative consequences, and the strength of a relationship will be the sum of both. So why do so few organisations measure the impact of bad customer experiences? The National Consumer Council report highlighted five areas of "negative behaviour" by companies:

- inflated expectations and broken promises – marketing campaigns and initiatives that promise the earth but fail to deliver;
- hard selling - junk mail, loans and credit, add-ons and extended warranties that often leave customers cold;
- dishonest behaviour – hidden charges, costly small print and a lack of transparency that result in worry and uncertainty for many customers;
- impersonal or robotic advice – standard letters, scripted conversations and a general lack of the personal touch;
- incompetence and ineffective systems – an inability to deal with a complaint, a lack of knowledgeable staff or a delivery system that requires the customer to take a whole day off work.

These patterns of behaviour undermine customer trust. They may reduce customer connection (as when, for example, bank customers irritated by poor service in the branches simply stop coming in). And they are very likely to reduce emotional loyalty. In combination, they will do long-term damage to companies that employ them.

However, few companies measure the impact, finding it easier to assess financial benefits from changes than intangible costs in the form of damaged relationships. The cost reductions achieved by moving a call centre overseas are easy to measure. So is the response rate to a mass mailing, or the savings from down-grading a member of a frequent flyer programme. These savings may result in lower prices, also carefully measured. But the negative effects never seem to get quite as much attention. True, many companies spend heavily on surveys designed to track "brand perceptions", but they are less assiduous in tracking these perceptions back to the factors that drive them, and particularly to the elements of service that may affect their brands. Yet in retailing, financial services and travel, surveys suggest that the most common reasons customers switch away from a provider tend to be related to service rather than price.

The irony is that many of these damaging activities result from investments in "customer relationship" systems: databases that facilitate junk mail, complex behavioural models that drive "hard selling" campaigns. Rarely is the customer's emotional reaction to these approaches factored in. Similarly, businesses that rely on secondary sales or ancillary revenues (i.e., hidden charges) may measure the number of "long-term relationships" carefully, but if these exist largely because customers find it difficult to switch suppliers, isn't it equally important to track the numbers who feel locked-in and exploited? And how many businesses do that? For almost every activity or marketing initiative with a measurable strike rate, there is also an implicit annoyance rate. Quantifying this may be hard. But for an organisation faced with high levels of customer switching, or even just high levels of complaint, understanding what annoys its customers (and its competitors' customers) can be extremely valuable.

RELATIONSHIP COUNSELLING

Our experience of working with a wide range of customer-facing organisations suggests that five things matter in building strong customer relationships.

1. Understanding critical events. Customers in different markets care about different things, but quite simple surveys can establish what comes top of the list for your customers. *Ask open questions rather than offering a standard list of prompts, and ask for positives and negatives separately.*
2. Set targets for both positives and negatives. Marketing departments often have key performance indicators based on the positive factors, but few set these based on the negatives. For every stage of the customer experience, map the negatives and use them to challenge the positives. *Don't worry too much about precise measurement as even rough estimates will enable you to challenge entrenched assumptions.*
3. Try to achieve consistency across your customers. When looking at new initiatives, remember it's better to achieve a 95% success rate with small improvements than only 50% success with big one. Ratchet up the customer experience incrementally and keep moving forward. *Targeted offers are useful for learning what works, but don't systematically leave groups of customers behind or you will foster resentment.*
4. Think long-term. Sales and financial targets tend to be short-term, as competitive markets require rapid responses. A longer-term customer plan can help you to maintain a balance. Think about why customers should stick around after the current transaction and use this to challenge short-term sales plans. *Look beyond your own markets for ideas and ask customers directly.*
5. Maximise connection. Use a personal touch wherever possible, invest in frontline behaviour and give staff autonomy to deal with customers. *Think like a customer and don't just focus on the sale.*

CRM systems, propensity models, sales commissions and targeted propositions all have an important role to play in customer-facing businesses. But if you focus simply on the numbers and not on the experience, you risk annoying the elephants just that bit too much – and getting trampled in the stampede.

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