CHAPTER 1

Taking the Customer Seriously—Finally

Companies of all kinds acknowledge that their customers are important; that customers are the company’s most valuable asset; that the company survives only when it has customers and grows only when it can retain them and recruit new ones; and that the company, therefore, should be structured and managed around the customer.

You have heard such proclamations many times—in CEO speeches, in press releases, and in the phone queue waiting for a customer service representative. In a survey that I conducted in 2002 at Columbia Business School with more than a hundred U.S. managers, customer focus was identified as the single most important differentiator between the best and worst companies in an industry.
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But what about customers’ actual experiences? How are customers really being treated? The answer is “badly,” despite all the protestations to the contrary. Customers are still being treated as if they didn’t matter or as if they were an afterthought to the company’s really important concerns. Take a look at these situations:

- You are a loyal and valuable airline customer. You spend more than 70 days per year up in the skies, usually in international travel, in first or business class on 747s. You are now about to cash in on the rewards of your loyalty: You are booking a vacation for you and your family with those carefully accumulated frequent flyer miles. How does your favorite airline treat you now? Is your trip an occasion for the airline to celebrate your loyalty? Are you a key priority, a valuable asset on that “special ticket”? Not likely. For many airlines, you are the lowest priority because you are not a revenue-generating passenger on that particular trip. You are a sucker, a parasite. And you will be treated accordingly: filling out forms to get the ticket, waiting on low-priority reservation lines, paying extra to get your tickets delivered. You are not eligible for upgrades. You get lowest priority on standby lists. If anything goes wrong during the trip—such as a cancellation due to bad weather or problems with the aircraft—you are the last to be informed and the last to have your problems resolved. So much for being a loyal, valuable customer all those years.

- You go to a local fast-food restaurant. The restaurant is dirty. The restrooms are filthy. The whole place smells of...
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grease. The service people behind the counter manage to take your order, give you change, and fill up your tray without looking at you once. The seats are screwed into the walls so far from the tables that you can barely reach your food. Sure, the food was cheap—but do you deserve this kind of treatment?

• You hear about a new online pet-food store and think, hey, that would be better than dragging home 40-pound bags of dog chow. You get onto the site, find your way around it—which is not easy—and manage to checkout using your credit card. At 7:30 the next morning, you get a call from a customer service representative who says their e-commerce software has “failed to capture” your credit card information and could you please give it to her again. She’s “pretty sure” they have the rest of the order information correct. In the cold light of morning, you think twice about entrusting your credit card information to a company with such unreliable software, and you tell the caller to cancel the order. The next day you get another call from a different customer service person, asking you again for your credit card information. You repeat your cancellation. Two days later, it happens again, and not one of these three customer service people realizes that either of the others has called. You finally manage to cancel the order, but you still cannot get off their newsletter e-mailing list because the “unsubscribe” function doesn’t work.

• You run your own business, a management consulting firm, but it is difficult to do business with most of your vendors (IT service providers, graphic design firms, messenger services,
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e etc.). In this age of the Internet, you still have to pick up the phone and fill out paper invoices to order their goods and services. Some of the vendors keep you on a phone line waiting for service for extended periods. Some vendors cannot e-mail order confirmations. Can’t these suppliers improve the way they serve your business?

All of these bad experiences—and many, many more—have happened to me over the course of writing this book. I am the guy who buys the yogurt with the bad packaging and spills it all over his suit. I am the one waiting 25 minutes on hold for customer service or standing around at the counter while the salesperson chats on the phone. I am the guy under the desk trying to connect the peripheral device in a forest of cords that all look exactly alike.

Unless I am particularly unlucky, you probably have similar stories to report. If you browse any of the complaint Web sites on the Internet, you will find thousands of such stories from dissatisfied customers.

The bad treatment many customers receive is not just a matter of the incidental failure of a particular aspect of customer management. It is not just that the Web site is poorly set up, or that the person at the call center had a bad day, or that this particular model of the product has a glitch. These failures are symptomatic of broader problems in the organization. Despite their insistence about the key importance of the customer, many companies are still systematically failing to provide their customers with positive experiences.

In fact, the problem is not just with a few companies here and there; entire industries seem to have caught the disease of
FIGURE 1.1
Frustrating customer situations: opening a badly designed yogurt container, waiting on the phone for customer service, connecting computer peripherals, trying to open alarm clock packaging. *Credit:* Photos by Nick Peterson.
customer mismanagement and abuse: car dealers, insurance companies, and electronics retailers are on the list of customer abusers for many people. Life as a customer can be really tough; sometimes it may seem as if you just have to live with inferior goods and poor service: \textit{C'est la vie!}

But wait. Even in the most customer-unfriendly industries, I can usually find at least one good—if not splendid—company that exemplifies the provision of outstanding customer experiences. Poor treatment of customers does not have to be a way of life. The examples discussed next come from the same industries as those presented earlier, but they illustrate very different treatment of customers:

- Singapore Airlines focuses on delivering an extraordinary experience—"a great way to fly"—through outstanding service. In its annual report, the company states: "Our aim is to provide the highest standards of service in the aviation industry"; it focuses on "all aspects of the travel experience in whatever class of service." In the course of my consulting and speaking engagements, I have spoken with hundreds of executives who have flown Singapore Airlines and almost all of them have been full of praise. The company has thought through every step of the customer experience, even in economy class: a friendly and competent reservation agent serves customers making reservations; the check-in procedure is fast and efficient; a flight attendant with a warm and natural smile greets passengers entering the plane; one of the attendants walks each passenger to his or her seat; at the seat, there is an amenities box; during the trip, the flight attendants are attentive; and so on and on. You can only imagine
what executives report about business and first class. This airline has been an innovator in managing their customers’ experience over the years: They were the first to have sleeper seats, dozens of channels in economy class, Internet booking for international reservations, and many other breakthroughs.

- For a great fast-food experience, go to Starbucks. Of course, it’s not called “fast food.” In fact, the service may even be a little slow. That is all part of the experience. There is much more to feel and experience in Starbucks than in the typical fast-food dump. This “Third Space” between home and office, as the company’s CEO has described its positioning platform, strives to provide an outstanding customer experience.

- How about online ordering? In contrast to my bad experience with the pet-food site, Amazon.com provides a marvelous online shopping experience. The site has the right look and feel, as well as an amazing interface. What is more, Amazon.com is continuously improving on the experience. We will take a closer look at this successful and innovative company in Chapter 7.

- For sending packages and other shipments from business to business, Federal Express (FedEx) has developed convenient Web-based shipping tools that get the job done fast and easily via the Internet right from your desktop. Or you can also give your front office employees the power to ship, track, and handle reports from their personal computers (PCs). There is more: Through FedEx, you can buy or lease a PC, handle all invoicing electronically, and track the shipment at any time.
FIGURE 1.2
Three Misguided Approaches

There is hope for better customer experiences. The companies in these counterexamples achieved extraordinary customer care. I featured some of these companies in my earlier book *Experiential Marketing*, and I provide many more outstanding examples throughout this book. These companies serve as benchmarks for a successful focus on the customer experience.

If all of this sounds supremely sensible, why are most companies doing such a bad job? If Singapore Airlines, Starbucks, Amazon.com, Federal Express, and others can succeed, why can’t more companies take the customer experience more seriously? And why, despite all their public declarations, are most companies still unable to treat customers the way they deserve to be treated? Are these companies just cynical? Is all that “your call is important to us” and “be assured your business is of great value to us” just marketing talk?

Occasionally, perhaps, but not for the large majority of cases. The problem is that such companies have been relying on outdated and misguided marketing and management approaches that present themselves as customer-focused but fail to help companies connect with their customers.

Three Misguided Approaches: The Marketing Concept, Customer Satisfaction, and CRM

What approaches am I referring to? Many of the companies that talk about the importance of the customer rely on one of three paradigms: the “marketing concept,” “customer satisfaction,” or “customer relationship management.” In the following sections, I describe these paradigms and explain why I call them “the devil in disguise.”
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The Marketing Concept

In the 1990s, companies increasingly acknowledged the critical importance of becoming “customer-oriented” and “market-driven” instead of product-, technology-, or sales-focused. Becoming customer-oriented and market-driven is the core of what marketing scholars have called the marketing concept. This is how Philip Kotler, a well-known marketing author, summarizes the marketing concept:

The marketing concept holds that the key to achieving organizational goals consists of determining the needs and wants of target markets and delivering the desired satisfactions more effectively and efficiently than competitors. It starts with a well-defined market, focuses on customer needs, coordinates all the activities that will affect customers, and produces profits by satisfying customers.¹

“Determining the needs and wants of target markets,” “delivering the desired satisfactions,” “focuses on customer needs,” “coordinates all the activities that will affect customers”—it all sounds good, doesn’t it?

In fact, marketers have even developed a formal measure of the degree to which companies live the marketing concept. It is called the market orientation scale. The scale consists of 20 items that companies can use to diagnose the degree to which they are customer- and market-focused. The scale includes three sub-components that form the backbone of the marketing concept:

1. Intelligence generation. The collection of information about customer needs and competition through market research.
2. **Intelligence dissemination.** The spreading of the collected information cross-functionally and organization-wide.

3. **Responsiveness.** Acting on the collected information to satisfy customers (e.g., by incorporating customer intelligence into new product development).

When managers take a close look at the concepts, models, and tools of the traditional marketing field, they soon realize that traditional marketing is not at all customer-oriented. As I showed in *Experiential Marketing*, the field of marketing is fundamentally engineering- and logistics-driven; instead of focusing on the customer, marketing remains product-focused and sales-oriented:

- Most concepts and tools focus narrowly on functional features and benefits of products; traditional marketing lacks concepts that can account for the image and imaginative qualities that a product may provide.
- Markets and competition are defined on the basis of similarities in features and benefits; as a result, a broader and more appropriate view of markets and competition (based on consumption and usage situations) is missing.
- Customers are seen simply as rational decision makers who trade off functional features and benefits in their minds, when in fact they frequently engage in emotion-, intuition-, and impulse-driven purchases.
- Market research is a purely analytical and a mostly verbal undertaking, and methods that study customers in their natural environments are seen as unreliable and invalid.
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- Marketing strategy’s holy cow is “differentiation,” another product-focused concept. Differentiation of a consumer product does not guarantee that the product is relevant to a consumer’s life. Differentiation of an industrial good does not guarantee the good solves a business customer’s problems. Differentiation is just that—being different—and often in trivial aspects that are irrelevant to the customer.

- Marketing implementations through the Four P’s (product, price, promotion, and place) consist of a product-centered “to-do list” that specifies that the product needs to be packaged, priced, advertised, and distributed; but where is the “C” (the customer) in the Four P’s? How many product design, pricing, promotion, and distribution decisions actually focus on the customer?

- The marketing orientation scale is information-focused and quite generic. It can be useful as a broad assessment tool, but not for strategizing or planning a customer-oriented initiative. Empirically, the scale is only weakly correlated with organizational success. What is most confusing about the marketing concept is that it presents product-focused concepts and methods in the guise of a customer-oriented approach. As a result, if you rely exclusively on this concept and its methodologies, you are unlikely to fully understand your customers.

Customer Satisfaction

Another approach that presents itself as customer-focused—but isn’t—is customer satisfaction. We all believe that customer satisfaction creates customer loyalty; therefore, the objective
of this approach is to ensure that customers are satisfied after they have purchased a product or otherwise interacted with the company.

When are customers actually satisfied? According to this model, satisfaction is an outcome-oriented attitude deriving from customers who compare the performance of the product with their expectations of it. If the product is below customers’ expectations, they will be dissatisfied; if it is above expectations, customers will be satisfied.

Here we go again. In the customer satisfaction framework, expectations and performance are viewed in purely functional, product-driven terms. What does the customer expect in terms of product functions? What does he or she expect to get out of the product? How did the performance of the product (e.g., its quality) stack up?

What is absent from this approach is a consideration of all the experiential dimensions of product consumption that matter to customers. These dimensions may include how the product (or service) makes customers feel, what emotional associations they may have with it, and how the product or service may help customers relate to other people or groups of people. A whole world of experiential connections is waiting to be explored, and traditional customer satisfaction fails to take us anywhere near it.

The satisfaction paradigm has been used widely in the automotive industry, which has developed detailed functional measures of cars to track customer satisfaction. This industry illustrates the paradigm’s shortcomings. Being satisfied with a car is more than having an engine that runs smoothly. On functional attributes, many cars are equal. As important, if not
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more so, are styling, aesthetics, entertainment features, lifestyle considerations, and prestige—all aspects of driving and owning a car that rarely appear in satisfaction surveys.

Moreover, given the neat “Satisfaction = Loyalty” equation that the customer satisfaction paradigm is built on, most satisfaction measures have been bad predictors of customer loyalty. So, once again, something has to be missing.

Ironically, the customer is what is missing. Like the marketing concept, the customer satisfaction model is far more concerned with the functionality of the product than with the experience of the customer.

I expect some of you are saying, “Isn’t customer experience just a fancy word for customer satisfaction?” Not really. Think about it this way: Suppose you were to ask your partner two questions after sex: “Were you satisfied?” and “How was the experience?” I predict you might get very different answers to these two questions. (You might also get different kinds of answers from men and women, but let’s leave that aside.) The concept of satisfaction is outcome-oriented. Were you satisfied with shopping? “Sure I got what I wanted.” Are you satisfied with your car? “Yes, it drives well.” “Were you satisfied with sex?” (You fill in the blank.)

Experience, in contrast, is process-oriented. The shopping experience includes much more than simply getting what you want. It focuses on all the events and activities that were part of it: the design of the shopping environment in the store or online, the service personnel, how they greeted you, whether you bought something extra, and how you felt while you were shopping. The same for the car experience: the way the door sounds when you close it, the way the fabric feels, how the
dealer treats you. For sex? All those sensory, affective, intellectual, and bodily stimulations (to put it scientifically) . . . So how does the leading condom brand position itself? “Trojan—for the most enjoyable experience.”

Now ask yourself as a manager, which idea—satisfaction or experience—provides more guidance for adding value to customers. Clearly, experience provides much more guidance because it forces you to identify the details that result in satisfaction. If you go through the process of managing the customer experience, satisfaction is likely to be one of the results. But experience is what you need to understand and manage. If you pay attention to the experience, satisfaction occurs naturally. As an added bonus, experience—far more than satisfaction alone—will differentiate your company in the eyes of your customers. Providing powerful and compelling customer experiences will set you apart from your competitors in a way that focusing on simple satisfaction never will.

**Customer Relationship Management**

A recent entrant to the arena of so-called customer-oriented approaches is customer relationship management (CRM).

Customer relationship management means different things to different people: it may refer to direct mail, mass customization, databases that do online analytical processing (OLAP), or customer interaction centers (CICs). In practical terms, however, CRM consists primarily of databases and software programs used in call centers. Software applications of CRM have become a huge business, just as reengineering and total quality management (TQM) were in the late 1980s and 1990s.
However, even after running $50-million CRM programs over three to five years, companies are often dissatisfied and feel that their results lack differentiation and customer focus.

This disappointment occurs because, despite the relationship in its name, CRM focuses on transactions, not on building relationships. Companies record in data fields only what is easy to measure and record, not the less quantifiable information that could complete the picture of the customer. Even with enormous computing power, the data collected are often purely recordings of monetary transactions and operations (e.g., when the customer bought what where; when the salespeople showed up; what piece of equipment was exchanged; when the customer checked into a hotel; and how much he or she spent in which restaurant outlet).

The problem with CRM is that it focuses on information that is important to the company and occasionally helps to shape customer behavior through what is called operant conditioning (the consequences of customers’ spending patterns), but it rarely establishes an emotional bond with the customer. Other needs besides functional ones are neglected. Customer feedback is usually not included. Moreover, most CRM programs can be copied—all you need is the software, some integration with existing systems, and “deep pockets”—not easy requirements, but not prohibitive for most companies either.

Most important, building a relationship requires integration across a variety of touchpoints. But CRM databases are usually not integrated with brand-focused customer initiatives such as advertising, promotions, or special events. Despite its attractive title, then, customer relationship management does not manage relationships with customers.
What Is Customer Experience Management?

The Need for a New Approach

The marketing concept, customer satisfaction, and customer relationship management all promise to help managers better understand their customers. However, each approach has remained narrowly focused and unnecessarily limiting. What's more, they often distract management from really focusing on the customer. That's why I call them “the devil in disguise.”

What managers need is an approach that takes the customer seriously—finally. Such an approach would provide a view of the total customer experience. It would focus not only on functional product features and functional transactions but also on anything else that provides value during decision making, purchase, and usage. It would enable managers to create products and services that consistently delight customers and provide profits for the firm. This approach would define markets and competition based on broad sociocultural and business usage contexts, and companies would use this insight in new product development and deployment. Finally, it would use research to gather broad-based customer intelligence instead of precise but inconsequential measurements.

Customer experience management is that approach.

What Is Customer Experience Management?

To put it simply, customer experience management (CEM) is the process of strategically managing a customer’s entire experience with a product or a company.

As you will see in this book, CEM is a truly customer-focused management concept (not a “marketing” concept).
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It is a process-oriented satisfaction idea (not an outcome-oriented one). In addition, CEM goes far beyond CRM by moving from recording transactions to building rich relations with customers.

CEM has a broad view of how a company and its products can be relevant to a customer’s life. CEM connects with the customer at every touchpoint and calls for the integration of different elements of the customer’s experience. It recognizes that customers don’t buy a car just because it operates well and a computer just because it has sufficient storage, memory, and plug-ins. A car is also an identity-projecting lifestyle product, and it is as important for a computer to spark the imagination as to store data. CEM is concerned with sales and brand preference, but that is not the whole story. Before and even after the sale, CEM provides value to customers by delivering information, service, and interactions that result in compelling experiences. It thus builds loyalty with customers and adds value to the firm.

CEM also takes an integrative approach to the organization, looking internally as well as externally. A manifestation of this integration is its attention to the employee experience because employees influence customers’ perceptions of the company. Therefore, to create a delightful customer experience, employees must be motivated, competent at their jobs, and innovative in their thinking. To do all this, employees need to have the right experience with the company they work for. Managers cannot just impose initiatives from the top down; these initiatives have to be an integral part of the whole organization. This point is most obvious with services, but the principle applies to any business. To deliver the right look and feel and the right
Box 1.1

Does Customer Experience Have Measurable Effects?

Several empirical studies have addressed this question. In 2001 and 2002, ADK, a communication firm, conducted an extensive series of studies in which more than 1,000 male and female customers ranging from 20 to 49 years old participated.

Separate studies assessed the relationship between experience and advertising effectiveness between experience and store impact, and between experience and Web site effectiveness. The studies were conducted as mall intercepts and Internet surveys.

The research employed a revised and improved version of the EX Scale that I featured in Experiential Marketing as a measure of experiential value. To have a reliable and valid scale that could be used to measure experiential value for all sorts of stimuli (products, ads, stores, Web sites), the scale development itself included several thousand consumers. For the results reported here, the EX Scale values were correlated with customers’ overall impressions, attitudes, and purchase intentions for dozens of TV ads, stores, and Web sites.

The following figure shows the statistical correlations between the value on the EX Scale and the impression, attitude, and purchase intention measures. Note that all correlations exceed a value of .4 and that two-thirds even exceed .7.

(continued)
These high numbers and strong relationships indicate that more experiential ads, stores, and Web sites result in higher impressions, more positive attitudes, and greater purchase intentions.

In addition, the next figure shows the relationship between GRPs (gross rating points), a measure of the total audience delivery, and awareness. In 12 out of the 13 cases used in this research, the awareness scores for the experiential ads were above the standard awareness curve. This strongly suggests that experiential communications draw greater attention and create stronger awareness and memory than other communications.

An experience project thus offers great value to a firm. Moreover, the costs of a CEM project usually do not exceed those of comparable marketing and management initiatives.
What Is Customer Experience Management?

Box 1.1 Continued

and are in fact often considerably lower, especially when the experience is an integrated one (see Chapter 8). As a result, the return on investment (ROI) of a CEM project usually exceeds those of other initiatives.

interaction, and to be innovative in the marketplace, employees need to focus not just on numbers and spreadsheets, but also on the customer experience.

Finally, CEM is not an amorphous business philosophy. It is a practical management tool that can show you in detail how you can provide experiential value to customers and, in turn, derive financial value for your firm.
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**Conclusion**

CEM is a new paradigm that represents a radical break from the old marketing and management approaches. It offers analytical and creative insight into the customer's world, strategic tools for shaping that world, and implementation tools that companies can use to increase customer value. Chapter 2 describes the five-step CEM framework which you can use to connect with your customer equity and grow your business.