Business901

Podcast Transcription

Implementing Lean Marketing Systems

Customer Experience: What People Really Buy

Guest was John Goodman

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What do Customers Buy, Part 2

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Transcription of the Podcast

Joe Dager: *Your first book I kept back on my bookshelf, dog ears, tried different things out of it and used it as reference material. This book, it makes me want to go back and reread certain sections again. I don't know that I got everything out of it that I wanted just reading it cover to cover.*

John Goodman: In fact in a number of areas, I sort of raised issues but for brevity don't necessarily fully answer them or fully blow them out. I guess that's one of the challenges is I was trying to cover so much, you know, all the new technology and everything like that, the evolution of the market and customers which are becoming more and more fragmented to the point where one, there was at least twice as much material that could've gotten in the book, had wanted to do a 700-page book which no one would want to read, but so that's one of the challenges.

Joe: *Every time you go deal with, I go deal with a client, they have a whole different software products that they use because it's the best thing since, sliced bread. There's just so many different things out there to be able to be used that it's not uncommon anymore that you find people using 10% of 20 different products out there.*

John: On top of that, even the broad technology areas, for instance, online communities or gamification or video. There're so many different ways each of those can be used. For instance, I just started advising a startup that streams video from your iPhone. If you've been in an auto accident, rather than sending an adjuster out, they send you this App and then you walk around the car and show them all of the different views of the car and, you know, sort of exactly the same thing the adjuster would see with his eyes and they're recording it. They basically can adjudicate 95% of claims without ever sending the adjuster out and I'm now doing the same thing with a construction company, where rather than send the estimator out to give you an idea of what the job would cost to redo your kitchen, this can now be done using this mobile app. So, that's one example of video, but on the other end videos used for educating people and setting proper expectations and everything else, so each of those technologies has 20 possible applications and what I did was I sort of hit, "Here are the 3 big ones and here are the 3 big mistakes," but literally writing some new articles on online communities and on gamification. We're now sort of expanding on that stuff.

Joe: *Like, it's never ending, what you can do right now. Then, I always go back and I always reference Apple and remember that every person in the world can practically name all of Apple's products and they all can sit on the kitchen table and everybody's defined at*

what they do and they're one of the most profitable companies in the world.

John: That goes back to simplification which another interesting thing we may want to just talk about very briefly is Siegel and Gale just came out with a study. They've now created what they call the Simplification Index. I heard about it because Toyota was the simplest car and it goes back to the Steve Jobs thing of 'don't add functionality, take away functionality so that only the key functions are there.'

Joe Dager: *Welcome everyone. This is Joe Dager, the host of the Business901 podcast. With me, today is John Goodman. John is the author of one of my favorite books, Strategic Customer Service, and has followed up with a new book, Customer Experience 3.0. John, I'd like to welcome you back. We had a great podcast last fall. I have to tell you I was just starting to figure out this 2.0 stuff. What is 3.0 all about now?*

John Goodman: Well, basically what we've seen is an evolution from the '70s where you had a TQM and plain old customer service. In the '90s, a guy named Joe Pine wrote a book on customer experience and he basically said, "You really need to 'Wow' the customer."

That was sort of Customer Experience 1.0. Then, I came out with my book, Strategic Customer Service, which says, "Hey, you really need to use the voice of the customer as feedback to enhance not just problem handling but also doing it right the first time to enhance the Customer Experience." In the early 2000, IBM and some other companies came out with Customer Experience 2.0 which basically said that you needed to use CRM systems, Customer Relationship Management systems, to tailor the offering to the

customer, but it was primarily aimed at sales. And again, Amazon would personalize your website, for instance. Now I've moved to Customer Experience 3.0 which says "You need to look at the end-to-end Customer Experience and become proactive, preventive and also when it's inexpensive create an emotional connection." Sort of the foundation of Customer Experience 3.0 is being proactive, preventive and creating connection.

Joe: *Are we starting to define our organizations by the service we give?*

John: Almost, absolutely. I was doing a session yesterday for about 20 CEOs and one of the CEOs who makes auto parts says, "You know, I make these metal products but really the customer is buying 85% the experience and my expertise, and about 15% of what they're buying is this piece of metal." It goes back to at IBM, awhile back, one of their senior executives say, "We basically sell solutions that have a little bit of hardware associated with them."

Joe: *Talk about being proactive versus, you know, not reactive in 3.0 and to me that means that we really, really have to understand our customer really, really well, doesn't it?*

John: Well, actually in many, many cases, the company knows what's going to happen to the customer or the customer knows what's going to happen. The dictionary definition of being proactive is you control the situation by causing action rather than waiting to respond to an event and that I think is an important thing. The 'Aha' for me a few years ago was that the company in many cases, especially when you're providing a service or a product that's got services clustered around it, the company has operational data that will

tell you what's about to happen to the customer before the customer knows and my favorite example is 'FedEx knows 10 hours before you do that the package isn't going to arrive because it missed the flight in Memphis.' Then, they get a frantic phone call. Then, 2 days later they do the satisfaction survey. Now, all 3 of those data sets, the operational data that said 'Oops, it missed the flight', the phone call saying 'Where the heck is my package?' and the satisfaction survey saying 'I'm really upset that my package didn't arrive", those 3 data sets are all describing the same set of events but some of them are leading indicators and some of them are lagging indicators.

In most organizations, there is operational data somewhere that says, "We are going to miss this appointment. We are out of stock and therefore can't ship this item." And, in many cases, an operational data is more accurate than the complaint or the survey data. For instance, in my FedEx example, if they know that a thousand packages missed the flight, they may only get a hundred phone calls and 30 surveys back. So, in many cases, the internal operational data is going to be more accurate in terms of how many customers were actually affected than your traditional Voice of the Customer data sources.

Joe: *You're saying that it's not this is really just knowing a customer well but we typically already have data that allows us to be proactive?*

John: Exactly and the key is to map the entire Customer Experience end-to-end and map your processes and every one of those processes that touches the customer and say, "Okay, for each of these processes, for the sales process, what data sets do we have? For their shipping process, what data sets do we have?" Because, in each step and every touch

with the customer you have internal processes that are touching that customer and in most cases there’s data associated with that. Now, the big problem we find is, there are actually 2. Number 1, none of those internal data sets overtly flag ‘This is Joe Smith, who has been affected, the customer.' They don’t necessarily have the same customer identifier across all those data sets because, hey, they’re internal operational systems, you know, we’re not billing the customer for that. Secondly, in many cases, they don’t even flag or report that there was a process failure because the data set is basically managing the shipping process or whatever the process is and it’s an internal operating system and therefore a lot of people don’t even think about, “Well, we should report how many failures take place at each step.” If the credit card has expired, so therefore we have to reverse the order. We may send a message to the customer, “Sorry, your credit card was rejected.” But, it may just cancel the order and not even tell the customer about it and you don’t know, it’s never recognized as being a customer dissatisfier.

Joe: *When we sit there and talk about, in Customer Experience, we’re not necessarily saying that the customer wants this ‘Wow’ experience sometime or this exceptional service all the time, they just want good service don’t they?*

John: Well, in many cases, it’s sort of my approach to the airlines, which is I just want to get from Point A to Point B on time with my luggage and I’m not really interested in a huge social experience with a flight attendant or anything like that, you know, I’ve got work I want to do. I would agree with you that ‘Wowing’ customers, especially going out of your way and it can be not very cost effective. I’ve had a conversation with one of the auto companies for years, where one of their goals is to continuously exceed customer

expectations and I think that's a stupid goal because you want to use cheap delighters, where you can, in 20 to 40 seconds of investment delight the customer as opposed to heroics and in fact free shipping actually did happen once of Nordstrom's taking back tires when they don't sell tires. Actually, I think has done a huge de-service to the entire service profession because finance guys look at that and say, "On the face of it, that's a really crazy thing to do because we're going to go out of business if that's done very much."

Obviously, trying to exceed expectations is a really bad idea. Now, on the other hand, Chick-fil-A has hired your grandmother to cruise the dining room and pour sweet tea and tap the kid on the head and say, "Oh, would you like a few more fries?" And, her job description is to create microbursts of emotional connection. But, that's a 30-second investment as opposed to taking back tires.

Joe: *Well, let me get back a little bit to technology here because that's a lot of what the Customer Experience 3.0 centered on. In the book, you just have a wealth of information in there. As I mentioned before the podcast it might even be too much information for me to sit there and get in one reading. What does that do for customer service? Can we have too much technology for the customer? Can we make it difficult by always having innovation taking place?*

John: Well, I think the challenge is to pick your battles carefully and also to create an alliance with the Chief Information Officer or the Chief Technologist and, in fact, the Harvard Business Review recently had an article that suggested that Marketing Executives, Marketing and Service Executives were going to be spending more on technology than the

I.T. Executive is going to. They basically say that Service and Marketing should have their own I.T. Executive who reports to them. Now, an interesting variation on that theme is that a company in Florida, Bankers Financial, where the CIO basically has joined himself at the hip with the other Executives of Marketing and Service Executives and he actually requires that his developers and systems architects go to happy hour with the Service and Marketing Executives and they literally have mandatory happy hours where they have to drink together. They have to do presentations together. They have to spend X hours of the month in the department so that they understand because to quote him, he said, "I know I don't know what a good customer experience is but I've got all of these tools."

You've got at least 10 or 15 primary technologies now and each of those has applications in certain areas. But again, you want to pick your battles, but if there's a broad customer experience map that the service people and the I.T. people are all using as their basic guide, then technology can say, "Oh, we have something that will fit here. Okay, we could implement this really easily." You're all working off the same road map, so you can implement a bunch of technologies. It's just that you need to be judicious and better a small success than a big disaster.

Joe: *Would I be totally out of the ballpark saying that 'Customer experience is our new sales tool'?*

John: It really is because the customer experience is the only differentiator now and our data shows that people will pay a significant premium for a better experience and there are 2 parts to that. One is the delight side, but much more that is 'I don't want any problems.'

What we find is that if customers have had no recent problems, only about 10% will have any concern about the price. The minute they have one problem, sensitivity to price doubles. If they have 2 problems, it doubles again. The primary thing is to make sure that the process and the technology are bullet proof, so you don't cause problems. Because, if you cause problems for the customer, as I alluded to in my FedEx example, only 10 or 20% of customers are even going to bother to call. The rest of them will sort of muddle through that they're not very happy and it has created significant price sensitivity. And also, it can foster negative word of mouth.

Joe: *Customer Experience 3.0, would I term it as a sales book or a service book?*

John: It's, well, it's both because it allows you to create a competitive advantage against your customers and to reduce the attrition of customers but at the same time it also makes your service process dramatically more cost effective. We find that at least 30% of all service transactions are completely preventable had there been better communication upfront and that's where the proactive and preventive activities come in because if you warn the customer at least during the sales process, "Now, here are 3 things you need to be aware of…" The customer will then not make those mistakes.

My favorite example is that we have an insurance company where they have a post-it at the top of the paper or at the it's an electronic post-it at the top of the online form, that says "Here are the 3 most prevalent mistakes people make on this form." The minute you have that person, then, don't make those mistakes and we find the quality of the input from the customer goes up dramatically. At the same time, you can also educate

customers very effectively on how to use more of the functionalities so they perceive that they get, they're getting more value. A good example of that is at Zipcar they have some very cute short videos that say, "Here's how you extend your reservation. Here's how you do this. Here's how you do that and they're little video mini soap operas that are quite entertaining to watch and they also educate the customer on how to use more of the product's functionality. So, we're finding that video is really important. The website is your first line of defense because everyone who has any question or problem goes to the website first and if you post the top 3 or 5 issues on the homepage, not 3 clicks in, but on the homepage they're going to look there before they get around to calling you and they'll never going to have to call you.

Joe: *I'm a marketing guy. How do I transfer that information besides just word of mouth to new customers or new prospects? Is there a connection in the book or is there something that you can help me with to expand on that?*

John: Basically, what we're finding is that online communities' gamification is something that is becoming very big where you create ethereal, I guess is the polite term, non-tangible incentives for customers to pass your message along to people. We're finding that saying, "Hey, you're one of our top customers" and "tell your friends" works extremely well. You can do it in a very low tech way. At Harley-Davidson and Chick-fil-A, they take photographs of their customers and post them on the wall in the store. Customers love seeing their picture up there and they may become strong marketing advocates for you.

Or, you can do this online, for instance, in an online community if somebody posts a great

piece of content or if the company posts a great piece of content, people will then tweet it and forward it by e-mail to all their friends. The power, coming back to your point about marketing, the power of this word of mouth is that if your word of mouth is god enough, your marketing expense goes down dramatically. The cheesecake factory, their marketing expense is less than 25% of the marketing expense of their peers. We see the same thing at Chick-fil-A. To be able to take 75% out of your traditional marketing costs, all of a sudden, that money immediately goes to the bottom line and, again, it's having your customers do your selling for you.

Joe: *I read somewhere that Trust is the new security on the net. Can that be the same as service, that I go there and I trust that I'm going to get an answer and I put up a little bit more maybe or if I have to?*

John: The 'no unpleasant surprises' is what really builds trust or being proactive where if there is going to be an unpleasant surprise, you get to the customer before they find out about it. It then makes you look smart and you don't really blame the customer. A sort of an interesting example is Harley Davidson figured out that everybody in the Northern State stores their bikes outdoors. And so, the first day of March when it starts getting warm, you jump on your bike and the battery's dead.

What they've now done is post it on their website and sent messages out to people saying, "If you store your bike outside, the battery's going to be dead unless you bring it inside and recharge it and, by the way, we have a drip charger on the website for $40. They take what is a guaranteed problem that's going to happen and help you prevent it and they

make some more revenue at the same time.

Joe: *Do you have a bad experience to share where technology backfired on someone?*

John: I think it's when the company, basically, didn't implement obvious technology and in my book is at United Airlines, I wanted to buy an upgraded seat on one of their partners and they said, "Well, you got to buy the ticket because we can't get into our airline partner's database unless we have a ticket number." Of course, this ticket will be several thousand dollars and it will be non-refundable. It was sort of "Wait a minute. I'm not going to spend several thousand dollars to then be told there are no seats available." I said, "Can't you look into their database?" The answer back was, "Yeah, we've been asking for that data link for years and no one's ever done it." That's an example of by not doing the simple technology you have built in a bunch of dissatisfaction which is not just frustration for the customer, but also for the employees because the employees know that that little piece of technology would make everybody's life dramatically easier. We do see about a 70% overlap between employee frustration and customer frustration.

Joe: *I think that's very true because it's always when someone's pounding on the keyboard behind you or something like that and complaining about the software, "This won't do this" or "They upgraded this system yesterday" and they're frustrated trying to find an answer for you.*

John: Well, and by the way, the other thing going back to your original question is that we have found that in a lot of companies, they view technology as the product and while

engineers love the poetry and beauty of the sophisticated technology, if it's complicated, customers hate it and this goes back to the issue of simplicity. Steve Jobs basically said that "You make the product better by eliminating functionality and reducing it and simplifying it rather than making it more complex."

My exhibit A would be the control panel in most of the new automobiles that have 25 functions, of which the average consumer knows how to use 4 or 5 and I recently asked an audience, "How many of you have read your owner's manual and 2 hands out of 300 people went up. A couple of the auto companies are thinking of doing is they're going to start monitoring the utilization of the different functions in the dash panel and then they'll note which 4 your using and send you an e-mail with a couple of videos attached saying "Here are 2 more functions you might want to try." But, the basic bottom line is that a lot of the functionality has gotten so complicated that it's lost on the customer and its sort of the equivalent of your TV remote. God forbid you hit the wrong button because there are 40 buttons there, of which you know how to use 5. If you hit one of the other buttons, you're in big trouble.

Joe: *I think you're so right there because I just had an upgraded software package the other day where they had basic, guided and expert, as my 3 choices. It gave me a different panel view and the truth is that 80% of the time I use the basic package and it makes it so much cleaner and easier to use. I love it.*

John: That's a fabulous example of tailoring the customer education to the customer which is to say "Are you a music major or are you a techno geek? We're going to give you a

different view depending on your level of expertise.” Customers are more than happy to characterize themselves in terms of where they are on that spectrum and all of a sudden the information becomes much clearer to people and that clarity and simplicity, people, Siegel and Gale, just did a study that found that people will pay a 5% premium for incremental simplicity.

Joe: *What’s DIRF? Did you mention that in your book and could you explain that a little bit?*

John: Yeah, it’s called Do It Right the First Time which means delivering your product in a way that there are no unpleasant surprises. A key part of that and this is the part that I think, both marketing and sales people find the hardest to deliver on is setting proper expectations. It is not in the DNA of marketing and sales people to talk about the limitations of a product and in fact I had a CEO in the session yesterday who said that they do military goods for the most part but they had come up with this bag that was very tough but it had sort of a rough outside that could scrape your skin. But, again, for combat soldiers it worked perfectly. Well, they then started selling a consumer version of it. The staff was saying, “Well, you know, we need to warn the soccer moms that this is a really rough surface that could, you know, scrape your skin.” Some of the marketing people said, “Oh, we really, you know, we don’t want to point out the limitation.” and the CEO was a woman who said, “No. We’re going to be upfront about it and we’re going to tell them we’re making an outer cover that will go over it to protect your skin.” It all of a sudden became a very positive thing in the blogosphere and social media, people were saying, “Oh, yes, this is an issue but they’ve recognized it. This originally was done for combat

soldiers and now it's being done for soccer moms and so they're making it much snazzier, smoother and everything like that." She said that they had been very, very reticent to talk about this limitation, but it was embraced and welcomed by the marketplace. It's sort of "Hey, you're telling me the truth."

Joe: *So, transparency is still alive and well?*

John: Yes. Although, again, marketing and sales people cringe, another good example of this was an insurance company. They had a standard homeowner's policy had a limitation of $3,000 on guns and jewelry. And, in this particular state, the average customer had $6,000 worth of guns. People had claims denied and then they would say, "Well, why didn't you tell me there was a limitation? Well, didn't you read your policy? No. No one reads their policy." So, a welcome letter said, "Welcome to the family. We have a $3,000 limit on guns and jewelry." The sales guys hated it. It was, "Oh, you know, this is going to create a problem." Well, the customer reads it and says, "Oh, well I have more than that. I guess I need to buy a rider. Can I give you some more money?" So, in fact, by raising the issue, you generated more revenue. No one was unhappy about it but you also avoided the later potential occurrence of 'We denied the claim" and "You guys slid it by me because you didn't tell me you're a bunch of crooks."

Joe: *Who should read the book? Who should read Customer Experience 3.0?*

John: Okay, it's really meant for probably five different groups, number 1, marketing and sales, number 2, the service people, number 3, the quality profession, because again I

have found in general, the quality profession is still heads down worrying about the product quality and to your point much earlier, a piece of metal product is now 15 or 20% of the total experience but you need to worry about the rest of the experience. The fourth group is the newly emerging profession of chief customer officers, people worrying about customer experience and the customer insights people, who in many cases are feeding them. And then, the fifth group is finance and what we have found is that CFOs are not, you know, Darth Vader and the source of all evil, as service people tend to paint them but, in fact, they need to have a rational way for being able to make decisions about how much to invest in service and quality and setting proper customer expectations. What we have generally found is that the revenue and word of mouth implications have better servicing quality are 10 to 20 times the required investment, but you have to have the methodologies to be able to quantify that in a way that finance people will actually believe and that's one of the big things that the book provides is the methodologies for quantifying the implications of improvements and service quality and experience in a way the CFO will actually feel comfortable embracing.

Joe: *We've met through ASQ that I find that it's interesting because most quality people are very removed somewhat to the Customer Experience except dealing with the problem that gets fed back to them. I think of risk and I think Risk Management. Customer Experience is a huge risk, isn't it? I mean you got to do it, right?*

John: Oh, absolutely and, in fact, I recently had a consumer package goods company, where I had fed back some of the data and some quotes from customers and the quality guys in the manufacturing plant said, "Oh, we've never had this kind of information

before." I made the case to the head of Customer Insights and Customer Service that, basically, the plant people should be allowed to talk to the consumers directly to say, "What were you doing when this happened and how had you stored this product, etc.?" The General Counsel intervened and said, "We don't ever want to have plant people talking to customers. That would create too much potential risk." Well, I'd counter it to your point and say, "What's the risk of the plant people not understanding how the customer was using the product? If anything, there's a huge risk there and, in fact, if you look at almost every major class action lawsuit and big government intervention, and there have been a number of, for instance in the auto industry and in the pharma industry recently, almost every one of those is due to the fact that problems weren't handled very effectively and the problems were not paid attention to. It was literally with your problem handling and quality improvement process were pouring more gasoline on the fire rather than dealing with it effectively." That actually raises the interesting issue that my company CCMC, every 2 years we do the National Wage Study. That's a cross-section survey of U.S. population with Arizona State University, where we basically identify what makes consumers so angry they start swearing at a company.

What we find is that in most cases, the customer if they do bring a complaint to the company, they want both an apology, they want some empathy and they want a tangible piece of compensation or remedy. A large number of companies just say, "Well, we don't need to apologize. We didn't really do anything wrong so why should we apologize?" By not giving the apology, "I'm sorry to hear that happened. I'd be upset if it happened to you." even if the customer did contribute a bit to the problem, that doesn't cost anything but it doubles the potential of making the customer happy and what we have found is that

comparing the recent wage study in 2013 to the White House study that we did in the '70s. Service and Quality have actually gotten worse over the past 30 years because companies are spending lots more money but they're doing it in a way that doesn't make customers happy and they're doing sort of all the wrong things.

Joe: *Both your books, Strategic Customer Service and Customer Experience 3.0, are available in Amazon. What's the best way for someone to get a hold of you, learn more about the book if they want to? Is there a book website or anything?*

John: Easiest thing is to go to Customer Care Measurement & Consulting's website which is customercaremc.com. My e-mail is JGoodman@customercaremc.com and I tweet fairly often @JGoodman888.

Joe: *Okay. Well, I would like to thank you very much, John. Again, another great, delightful conversation that I admire your experience and your thought about Customer Service and Customer Experience. It's second to none. I appreciate your time.*

John: I really appreciate the opportunity.

Joe: This podcast will be available in the Business901 iTunes store and the Business901 blog site. So, thanks everyone.

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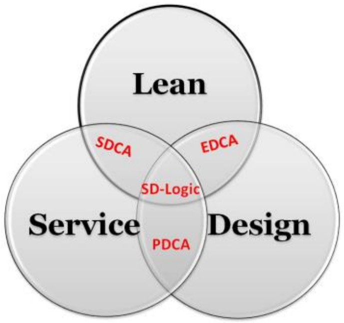

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