ATKearney

How to Create an Entirely Different(iated) Customer Experience

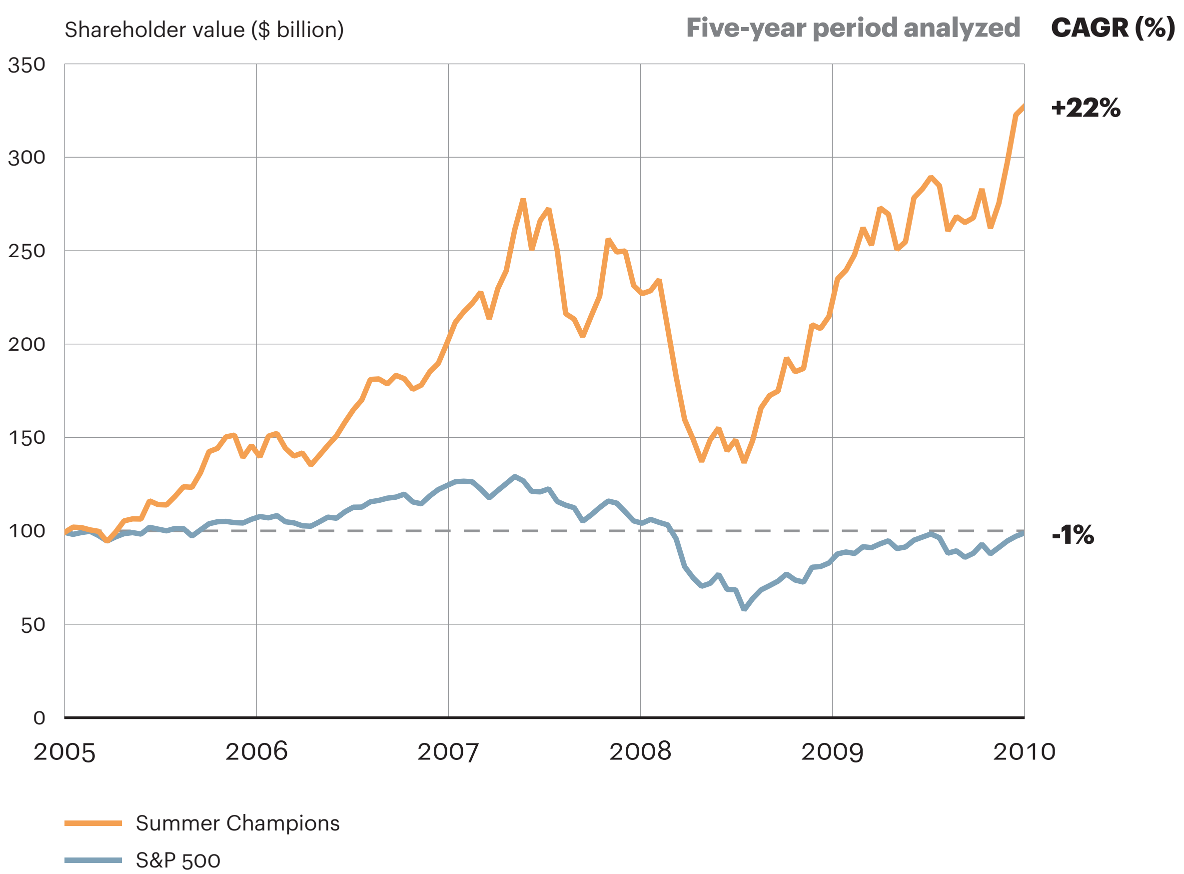
Leaders in telecom, utilities, and insurance are boxed in as their markets become commoditized, saturated, and regulated. How to break out of the box and return to growth? Reconnect creatively with customers.

Creating a unique customer experience is one of the best ways to achieve sustainable growth, particularly in industries that are stagnating. If a telco, a utility, or an insurance company can create a highly differentiated customer experience that turns dissatisfaction or indifference into delight, it will recruit an army of vocal advocates online and offline, gain market share, and generate revenue growth.

Sound simple? It isn't, especially in sectors where the core product or service is difficult to differentiate. But it is doable, as Disney, IKEA, and ArcelorMittal have demonstrated. These firms are among the 15 Summer Champions identified by A.T. Kearney from an initial list of 500 as companies that outgrew their markets consistently over a five-year period despite being the largest players in their sectors.[1] The Summer Champions have created more shareholder value than the market average, generally by focusing on the customer experience first and financial metrics second (see figure 1).

Tellingly, not a single telco, utility, or insurer qualified as a Summer Champion. That may be due to an inability of firms from these sectors to build an emotional bond with their customers. Instead of counting "connections" to the network or "revenue-generating units," it is time to think of customers as people—the kind who make buying decisions based on how much they empathize with a particular brand.

Figure 1
Putting customers' needs first pays off



Source: A.T. Kearney analysis

[1] See article, "The Summer Champions," in this issue of Executive Agenda.

The Need for Change

In the telecom, utilities, and insurance sectors, market leaders typically make the journey from monopolist through deregulation and the open market, to growth following acquisition and, finally, to the current stage—characterized by price-led competition and rising levels of churn, exacerbated by increasingly onerous regulation (see figure 2). In most markets, the provision of telecom, electricity, gas, water, and insurance has become commoditized, so product differentiation is very difficult. The net result: Incumbents are losing customers and revenue to newer entrants with lower costs.

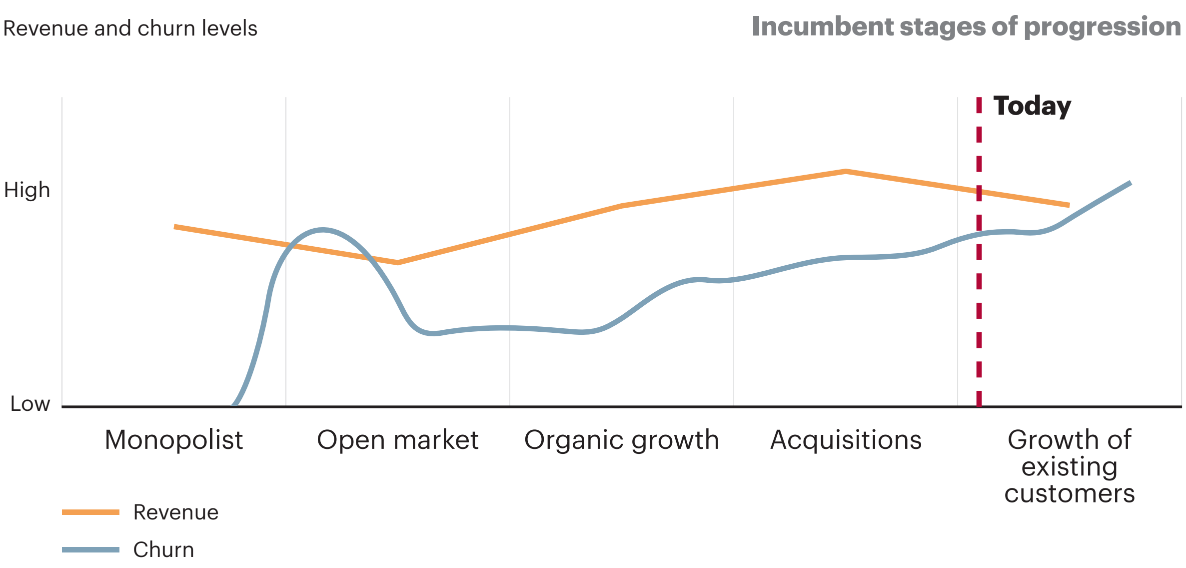
Thanks to social networks, price comparison websites, and online reviews, the typical customer has higher expectations and greater knowledge than ever before. Moreover, regulators, new technologies, and new entrants have lowered the switching barriers, making it easy for customers to jump to new service providers.

Several studies demonstrate that churn is due to poor service. For example, a Pitney Bowes survey of American and European businesses finds that slow customer service is the most common reason for changing a supplier (51 percent of respondents), followed by late delivery of a service (37 percent), and lack of concern for customer needs (30 percent). Studies of the U.K. utilities market reveal that market share of incumbent suppliers is influenced more by service performance than by price position relative to competitors.

While people have long complained about service providers in offline meeting places such as pubs or parties, today's social networks and online discussion forums mean such gripes often reach a considerably wider audience.

As awareness of the importance of the customer experience grows, companies generally react in at least one of three ways: 1) establish retention teams to try to dissuade people from cancelling their subscriptions; 2) set about identifying potential defectors and offer them a better deal; or 3) investigate and address the root causes of customer dissatisfaction.

Figure 2
Incumbents are losing customers and revenue to newer entrants with lower costs



Source: A.T. Kearney analysis

Figure 3
Move beyond the first three “actions” to inspire customer loyalty

Course of action	Activities	Company logic	Customer perception	
React	• Increase save rate • Improve retention process • Fine-tune the retention offer	“We need to stop the bleeding”	“I called to cancel, but they made me an offer I couldn’t refuse”	
Detect	• Identify potential churners • Take action to prevent churn	“Identify who is likely to leave and prevent it”	“I was about to cancel when they called me with an interesting offer”	
Prevent	• Identify root cause of negative experiences • Solve negative events • Do nothing wrong	“Make sure customers do not have any negative experiences”	“I have no reason to switch”	Typical reactions
Differentiate	• Make a unique promise to customers • Adapt products, services, and operating model to deliver the promise • Do some things exceptionally well	“Distinguish our services so customers become loyal advocates”	“You should switch to my operator”	Fresh “return to growth” reaction

These are all important measures, but they are not enough. Such actions might move your customer satisfaction score from negative to a six or seven on a 10-point scale. But a score of eight is the minimum to generate enough loyalty to prevent a customer from switching to a competitor if an attractive offer is presented (see figure 3). To return to growth, incumbents need to be scoring nine or even 10.

Creating Tribes of Loyal Advocates

Achieving very high satisfaction scores depends on doing absolutely nothing wrong and doing some things exceptionally well. In other words, find some clear and compelling differentiators that will prompt your customers to become impassioned advocates. There are several companies—for example, Harley-Davidson or Ducati—that possess such strong differentiators that their customers connect on an emotional level, creating “tribes” of loyal and vocal followers.

The strongest tribal brands evoke what has been described as “loyalty beyond reason” or a score of 11 on a 10-point scale. This is the kind of loyalty that persuades people to have Harley-Davidson tattooed across their bodies. While telcos, utilities, and insurers are unlikely to inspire that kind of passion, there are lessons to be learned from sectors that are far better at creating loyalty.

Of course, allegiance to most tribal brands is based on an admiration for unique physical products, rather than intangible services. But some retailers have demonstrated how distinct customer service can also build a strong following. IKEA, for example, aims to excel at several aspects of customer service, enabling it to distinguish clearly its performance from rivals'. The company keeps prices low and trending downwards. It ensures stock is continually available in all stores. It offers on-site childcare. All IKEA managers must work on the shop floor for one week a year, during what the company calls "anti-bureaucracy weeks." These weeks are designed to give managers a deep, personal understanding of IKEA's customers and their shopping experience.

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At Disney, even theme-park cleaners, who do not have extensive customer contact, get three days of training in "interpersonal skills" to ensure that any visitor asking a question receives a correct and friendly answer.

A similar philosophy is beginning to creep into contract-based industries. Although each company should take an approach that is appropriate to its organization and industry, we see several ways in which providing ongoing service contracts can differentiate from rivals, such as:

Simplification. Offer no-frills, transparent products and services. An example is the Netherlands-based mobile operator Simpel, which, as it name suggests, keeps its offerings easily understandable.

Distinctive and charismatic advertising. Build a strong brand. Examples are Virgin and Orange in the telecom industry, German energy retailer Yello, and E*Trade in finance. Who can resist a baby trading stock online from his crib?

Differentiating customer service. Do something *distinctive* for your customers. Vodafone in the Netherlands, for example, no longer charges customers per minute for a service call (a common practice in the country). Instead, charges are applied on a per-call basis, which puts the onus on Vodafone to solve customer problems quickly and effectively.

Compelling and innovative services. Give your customers what they need but never thought they would get from you. Yello did something uncharacteristic—it offered customers do-it-yourself kits to install solar panels on the roofs of their homes, and provided the means to monitor the panels. In doing so, Yello changed its perception from a pure electricity provider to a solutions-oriented, smart business. Groupama and Axa offer auto insurance policies integrated with telematics devices, providing drivers with valuable services such as online assistance in case of an accident.

Positively surprise customers. Belgium's incumbent telco, Belgacom, created a superb "out-of-the-box" experience with its delivery and activation process—it calls new customers to offer assistance the moment it sees them using their self-service package to go online.

Of course, this list is not exhaustive and business and technological innovations will always open up new opportunities to differentiate. Be aware, too, that some techniques can't be used indefinitely. For example, an airline might occasionally provide bronze card customers with silver level service, creating a high likelihood that they will enthuse about the experience to friends. Over time, however, such "surprises" will obviously lose the element of surprise and competitors may copy the idea. Retaining a competitive edge requires innovating around the customer value proposition and the experience. Bottom line: Creativity is key.

Create a customer experience that turns dissatisfaction into delight, and **you will recruit an army of vocal advocates.**

How to Create an Emotional Bond

Turning an existing company into one that delights its customers isn't easy. It requires a long-term commitment and investment perspective—because in the short term, financial benefits will probably be difficult to quantify. Incumbents, in particular, may need fundamental changes to their DNA to put the customer at the center of everything they do. Rather than focusing on short-term metrics, such as revenue-generating units and average revenue per user, telcos, for example, need to concentrate on longer-term measures, such as the value of a lifetime customer. The financial results of making customers happy can be noteworthy, as this (simplified) calculation shows:

Imagine a single customer, nearing the end point in her customer lifetime, becoming significantly more satisfied. The result, say, is another eight to nine years as a customer, a 5 percent increase in spending per year, and a personal referral that converts into a new customer. This one customer, we'll call her Ms. Right, creates 115 percent additional revenue for the company.

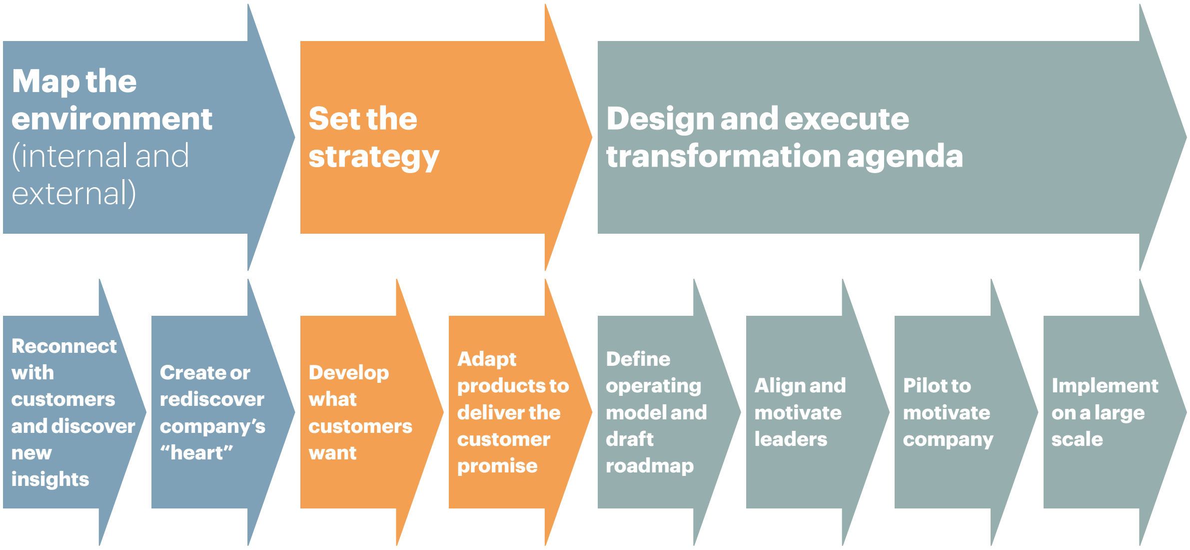
Here's how it is done:

- One extra year as a customer equals 12.5 percent additional revenue.
- A 5 percent increase in spending for the past four years equals 2.5 percent more revenue.
- One additional customer, assuming same revenue and customer lifetime as Ms. Right, increases revenue by 100 percent.

This is how powerful loyalty can be. Increasing customer lifetime is essentially a push to create an emotional bond with your customers. It can be accomplished over time in a step process. The first step is to reconnect with the customer and glean new insights that can be used to differentiate your product, service, or company from competitors. This usually means redesigning the customer satisfaction survey, meeting customers in their own environment, and performing a competitor analysis—only this time doing it from the perspective of customers. The idea is to get as many opinions as possible.

The next step is to create, or rediscover, your company's "heart"—by identifying the qualities that differentiate you from rivals—and establish core values (see figure 4). Armed with customer feedback and your core values, you can move toward a new and distinct customer promise—

Figure 4
A step process to increase customer lifetime



Source: A.T. Kearney analysis

one that is based on what customers actually want and will be a clear differentiator in the marketplace. The last step in creating this emotional bond is adapting your products or services to reflect this new customer promise.

Starbucks is a good example. The company aims to differentiate by offering highly personalized services, encouraging its baristas to build relationships with regular customers and learn their individual preferences. In a booklet of operational principles, called *The Green Apron Book*, Starbucks describes its five ways being as, "Be welcoming, be genuine, be considerate, be knowledgeable, and be involved," and supports them with practical tips that baristas can use in their contact with customers.

In the telco sector, the Netherlands' leading provider, KPN, has trained front-line staff of its XS4ALL brand to answer a wide range of customers' questions, including some not directly related to the company's own services. As a result, XS4ALL has gained a reputation for excellent customer service.

Whatever the new service proposition, it needs to be supported by a fully aligned operating model across all channels, products, and customer touch points. This generally requires a committed coalition of internally recognized leaders, supported by executive and middle-management workshops and town halls where the vision can be openly communicated and debated.

Consistently broadcasting the new customer promise and the underlying vision within the organization creates the required sense of purpose. Clear, quality guidelines underpinned by a culture of perfectionism are essential, as is linking executive compensation explicitly to customer experience measures. Identify previously "unwritten rules" governing employee interaction and then either formalize or scrap them, depending on whether they are in line with the new customer proposition.

To pilot the new approach, identify and champion small, high-impact initiatives to be monitored and evaluated by the top-management team. Finally, as shown in the third chevron in figure 4, successful pilots lay the foundation for large-scale implementations.

Many of these steps shouldn't involve spending more money and can be taken even as cost cutting and restructurings are under way. But some steps will cost money. While the financial benefits of delighting customers may not be evident in the short term—making a direct correlation between cost and revenue hard to establish—they will be apparent in the long run.

The Summer Champions clearly show that the vast majority of the world's most successful companies have built long-term shareholder value by prioritizing the customer experience over short-term profits. Mikael Ohlsson walked the talk when, as the new CEO of IKEA, he took his company's policy of cutting prices annually one step further and slashed furniture costs. "I tend to look not so much at competition," he said in a 2010 interview with the Associated Press. "We look at people's lives and what we can do to make them better."

IKEA remains the world's largest furniture retailer, and the company recently announced it is accelerating the pace of its store openings in China to achieve faster growth.

Make the Customer Happy

Although it might take years to make operational and cultural changes, the prize is worth the time. Do it well and customers will form an emotional bond and become intensely loyal, enthusiastically recommending your services on social networks, at parties, and in online forums. Word will spread (more referrals), market share will rise (more customers), and revenues will grow (more customers who stay longer and buy more). Keep it up, and the cycle of success will continue.

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