



Why simply the best isn't always right

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HONEYWELL



Good performance alone cannot crack the complex code that governs the strength of your customer relationships and the sustainability of your business.

As competition intensifies, it is essential to get smarter about the experiences that matter, and deliver return on the bottom line.



WHY SIMPLY THE BEST ISN'T ALWAYS RIGHT

The landscape of customer relationships is undergoing a fundamental shift. Today's consumers have more information than ever at their disposal, and more choice when it comes to acting on it.

Customers are increasingly challenging and expensive to retain, and even more expensive and difficult to replace.

And the disappearance of predictable customer loyalty is therefore putting profit margins under pressure across markets and categories.



THE DISAPPEARANCE OF PREDICTABLE CUSTOMER LOYALTY IS THEREFORE PUTTING PROFIT MARGINS UNDER PRESSURE

An in-depth TNS survey of over 40,000 customers across 20 countries shows relationships being eroded even in traditionally 'sticky' sectors.

Half of US consumers now replace their car with a different brand; 70% of Russians opt for a different company when replacing their TV; 12% of Germans have cancelled an insurance policy in the last year; 9% of Spaniards have chosen a different fixed-line telephony provider.

"Our customers are increasingly moving at pace in terms of their expectations of what a multi-channel operation looks like. They expect to be able to go into a store, have a conversation with you there and to carry on at home online or through an app. We need to manage all of that complexity and deliver a seamless customer experience across all of our touchpoints."

Spencer McHugh, Brand Director, EE

RELATIONSHIPS BEING ERODED EVEN IN TRADITIONALLY 'STICKY' SECTORS

Faced with such threats, an instinctive response is to do whatever is necessary to keep customers continually happy. Yet the same pressures that have swept away the assumption of customer loyalty make this an unsustainable strategy.

Budgets are limited, and crowded markets make it impossible to be the best in all areas of the customer experience. Before it can invest in strengthening customer relationships, a business needs to know precisely which experiences will have the greatest impact on future behavior.

"I think that demands are going up. The expectations are getting higher. And... the level of competitiveness is getting higher. This is how companies are differentiating now, in terms of the value they provide a customer and being more engaging pre-sale and post-sale."

Asim Zaheer,
SVP Worldwide Marketing,
Hitachi Data Systems

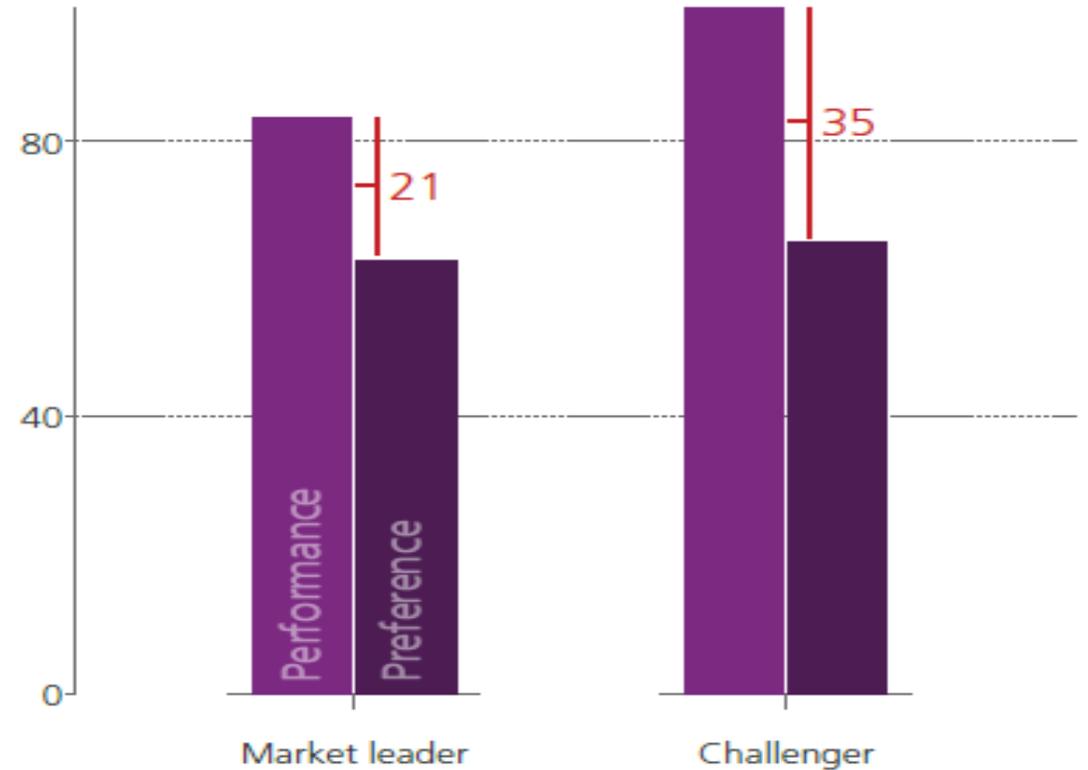


A BUSINESS NEEDS TO KNOW PRECISELY WHICH EXPERIENCES WILL HAVE THE GREATEST IMPACT ON FUTURE BEHAVIOR

If you want to succeed as a business, you must identify what really matters to customers. If you perform badly in these areas, people will stop choosing you. But good performance is only the entry price that earns you the right to build strong and valuable customer relationships; it is never enough in itself.

The most successful businesses can translate what's best about their performance into an active preference on the part of their customers. This ensures that they get regularly and repeatedly rewarded for the performance that they deliver. TRI*M Index, which provides a powerful measure of the strength of customer relationships, shows a significant difference in fortunes between the companies that can achieve this, and those that can't.

Translating good performance into active preference

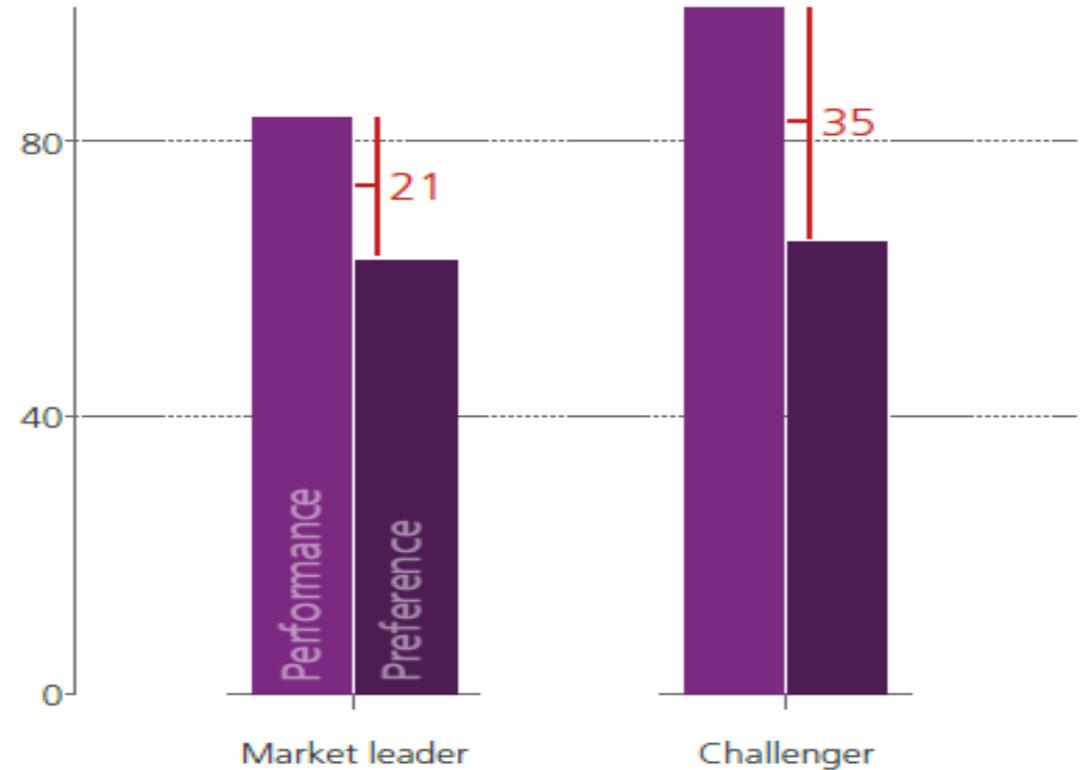


MIND THE GAP!

Let's take the real-life example of a challenger brand in the mobile operator marketplace. This challenger has a proposition that has proven very popular amongst its small but growing customer base. Its customers are happy with what it does for them, and this results in a strong performance score. The mobile operator also has a strong preference score, but the gap between its performance and preference is a large one, the biggest in its market.

What does this mean for the future of the challenger brand? Now, it achieves the same level of preference as the current market leader, which is good. But it must invest vastly more in performance in order to gain that preference, which could well prove unsustainable. Like many businesses, the challenger's long-term future depends on maintaining strong performance whilst translating that performance into active customer preference more efficiently. The most successful businesses in any category and market always have the lowest gaps between performance and preference. They have been able to close the gap because they understand what really matters to customers.

Translating good performance into active preference



MIND THE GAP!



Today's customers have many experiences of a company across many different touchpoints, but only a few of these moving parts become sustainable memories that will motivate and influence them in the future. Successful businesses can identify these experiences and identify what it takes to improve them.

They no longer have to perform excellently across every touchpoint; they know they just have to beat the competition in the ones that really influence their customers' behavior.

MAKING MEMORIES



Shopping at IKEA can be a frustrating experience: treks to large, out-of-town stores, an exhausting experience pushing difficult-to-steer trolleys around a labyrinthine layout. Yet customers love IKEA.

Although it doesn't deliver an excellent customer experience in every regard, it delivers exactly the experience that customers expect, consistently, and it focuses on the experiences that most readily translate into positive memories. The hotdogs and ice cream delivered at the end of the IKEA experience exert more influence over customer memories than even a clear instruction manual could.

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MAKING MEMORIES

Memories exert a big influence over future behavior, but they are not created in a vacuum and they don't exert their influence in a vacuum either.

Behavioral economics teaches us that human beings are contextual creatures, and customers are no exception.

When it comes to translating performance into preference a huge role is played by the competitive context in which that performance takes place, and the individual context that shapes how customers respond to it.



CUSTOMERS IN CONTEXT

One of the main reasons why strong performance doesn't always translate into strong preference is that there are other companies that customers believe to be just as good, or even better. And this means that apparently strong customer relationships can look very different when viewed in the full competitive context.

"The level of loyalty is not as strong as it used to be several years ago. There is more price sensitivity out there and willingness to move. Restricted budgets and challenging economies increase customers' willingness to take good enough at a reasonable price. This also allows new competitors to approach our accounts."

Asim Zaheer, SVP Worldwide Marketing, Hitachi Data Systems

YOU ARE NOT ALONE

In a global study of customer relationships, one example they looked at is a BRIC market bank that appeared to enjoy extremely strong customer loyalty. Of this bank's customers, 40% had a strong relationship with it.

Closer analysis though, revealed that many of these relationships were not exclusive. The bank's customers have relationships with other providers too – and many of these relationships are just as strong.

In fact, 70% of the bank's customers are considering using other banks in the future and more than a quarter of its total business could be classified as 'at risk'. As this example shows, any view of customer relationships that excludes the external context risks being dangerously misleading.

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YOU ARE NOT ALONE

When customers move house their likelihood of switching banks almost doubles.

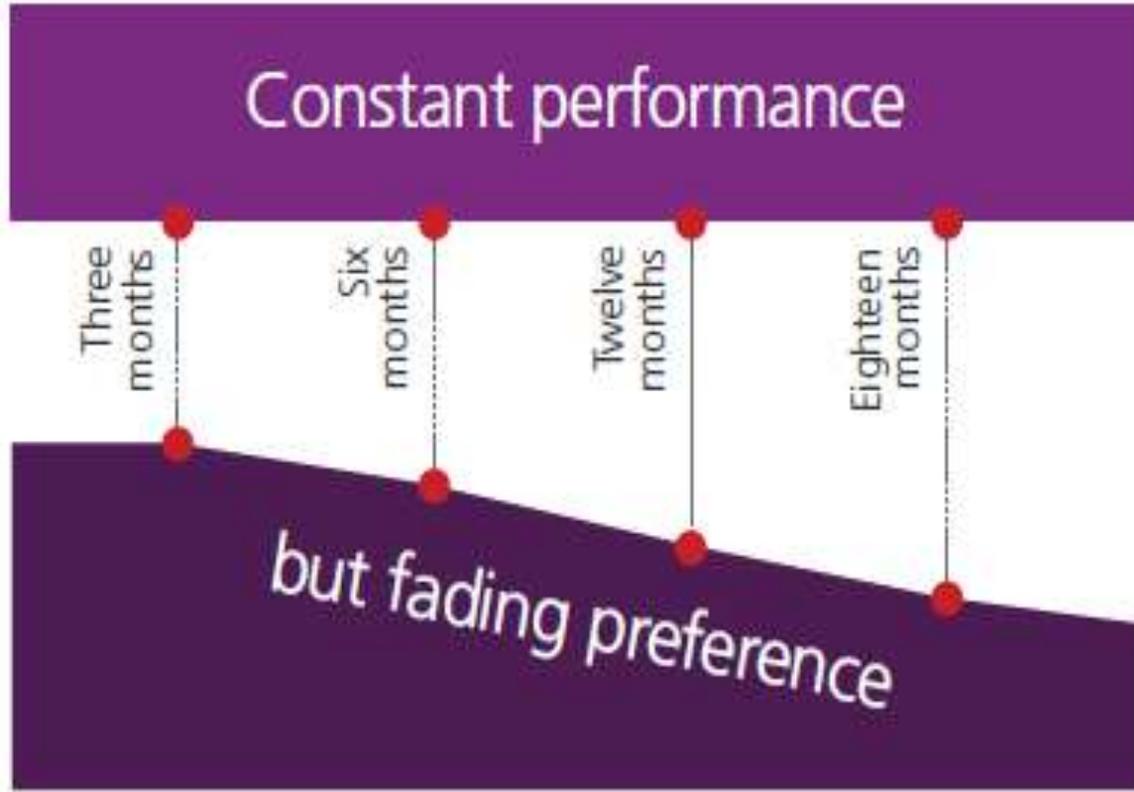


Just as misleading is any view of customer relationships that excludes the impact of changing circumstances. This individual context can have a huge influence over customer loyalty and the propensity to remain with a business or leave it.

Retail banking in general has low levels of customer churn, with 70% of customers saying that switching provider would be very inconvenient. However, when customers move house, their likelihood of switching banks almost doubles.

INDIVIDUALS NOT AVERAGES

Customer preference consistently fades over time



It doesn't always take dramatic life changes to shift the nature of customer relationships. Data also reveals that customer preference consistently fades over time, despite perceptions of performance remaining steady.

When it comes to delivering the memories that make a difference, businesses must pay particular attention to customers at these vulnerable stages of the life-cycle.

INDIVIDUALS NOT AVERAGES

“Like most organisations we have a combination of market data and of operational data and the challenge is bringing different views together in a way that can be actioned. Our big priority is to get actionable insights for front line teams in customer service and sales.”

Julie Woods-Moss,
Chief Marketing Officer,
Tata Communications

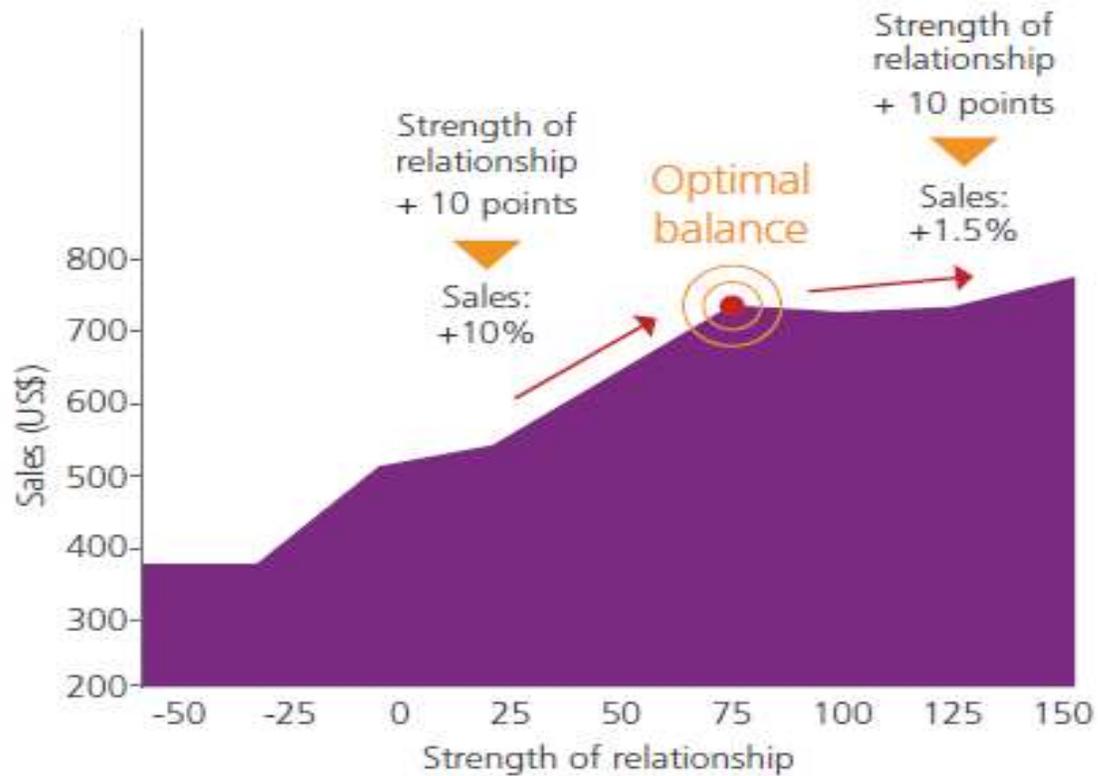
Understanding customers and their individual and competitive contexts means integrating insights from an ever-expanding range of sources.

CRM data, operational metrics and social media listening are all essential ingredients for cracking the Customer Code, and identifying the experiences that can deliver most impact and the best business outcomes.

This matters because, as such individual-level analysis often proves, the best is not always right for a company when it comes to customer experiences. Over-investing in experiences where you are already good enough can often draw resources from those better suited to building sustainable, motivating customer memories. Similarly, businesses are often guilty of racing for the cutting edge, without asking if new technologies or services really offer a competitive benefit that will drive preference.

LOTS OF DOTS TO JOIN

The optimal return on customer relationships



In today's competitive markets, securing customer relationships requires significant investment. Businesses should always demand to know exactly what type of return that investment will deliver, whether in terms of sales, customer advocacy or both. And in each case, they need to identify the 'sweet spot' where their investment in customer experience is delivering those returns as efficiently as possible.

Customer advocacy is a powerful asset that is often touted as the justification for investment, but it cannot be assumed that advocacy follows naturally from improved performance or better experiences. Indeed, TRI*M Index shows that there is a non-linear relationship between the two and a clear tipping point that needs to be reached after which advocates are activated to speak positively about a company. Companies planning to move the needle on NPS scores and use advocacy to drive acquisition need to start by identifying where this point is, and what level of customer relationships are required to get there. When focusing on sales, businesses must identify the point at which any further investment in customer experience will deliver only diminishing returns. There is a point after which strengthening customer relationships further can deliver only limited additional benefits to the bottom line, since loyal customers are already giving a high share of spend to the business. When we integrate TRI*M data with customer behavior data (spend, share of wallet, churn) we can identify clearly where this sweet spot lies.

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THE OPTIMAL RETURN ON CUSTOMER RELATIONSHIPS

“Today’s customers are bypassing existing business models in favor of their unique experience and requirements, especially with instant access to peer reviews, competitor offerings, and pricing. Passivity in customer engagement is dead. If you are not actively engaging your customers by understanding their needs and providing the tools they need when they need them, you are losing.”

Jonathan Becher,
Chief Marketing Officer, SAP

Understanding the hierarchy of importance for customer needs, and questioning the level of investment in different experiences is the essential starting point for cracking the Customer Code.

Businesses cannot develop relationships that work efficiently for them if they adopt the approach of seeking to be the best at everything. Throwing resources equally at all customer experiences draws attention from the touchpoints that matter most, drains future competitiveness and undermines long-term sustainability.

The companies that make a genuine asset of their customer relationships are those that understand which experiences matter most to their specific customers – and which therefore matter most to their business.

CRACKING YOUR CUSTOMER CODE



THANK YOU!

