The Walkie-Talkie Model of Customer Experience

A simple model to build a business case on how bad customer experience impacts your bottom line

Qaalfa Dibeehi, Chief Operating and Consulting Officer

Zhecho Dobrev, Consultant

It is most unfortunate that some people have misunderstood customer experience to be a "happy-clappy" endeavour. They see customer experience as a method to make customers happy. The raison d'être for customer experience is to deliver an experience that motivates customers to act in a way that is valuable to business. When you think about it, the customer behaviour any business is interested in can be broken down quite simply along two dimensions: Positive/ Negative and Walk/ Talk. Given this, it is possible to build a simple model based on customer behaviour that can be used to build an easy to understand business case for addressing bad customer experience – the Walkie-Talkie Model. The point of this model is that it provides any organization with a simple structure to gauge the cost of not focusing on their customers' experience. Often times, the most obvious things need a bit of structure to help align thinking.

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The Raison d'être for Customer Experience

Customer Experience is quite a simple concept to explain. Most of us understand that the way in which we interact with customers affects not only their attitudes but their actions. Ultimately, it is the actions all business are concerned with. Some of these actions include purchases, renewing, defecting, and complaining among others. These are the type of actions that require no dissertation to explain the link to the bottom line. These get right to heart of profitability, market share and organic revenue growth and cost to serve.

Therefore, it is most unfortunate that some people have misunderstood customer experience to be a "happy-clappy" endeavour. They see customer experience as a method to make customers happy. On the service this could be an over simplified explanation of customer experience but it is too simple because it suggests that customer experience is really about spending money and more money to make customers happy. The truth is if that is what customer experience was about, it would be an OK academic exercise but it would not hold sway as a business concept.

The raison d'être for customer experience is to deliver an experience that motivates customers to act in a way that is valuable to business. Value is determined for each business in different ways but the ultimate aim is a kind of economic utility where individuals act to satisfy their needs and wants. What customer experience adds to the age old concept of economic utility is a recognition that individuals are <u>completely</u> satisfied <u>not only</u> when their rational desires are met, complete satisfaction requires that subconscious or emotional desires are also met. Customer experience is thus concerned with the organization meeting and in some instances exceeding customers' rational and emotional desires (i.e., their conscious and subconscious desires).

In a classic Harvard Business Review Paper, Jones and Sasser[1] outline how satisfied customers defect at about the same rate as dissatisfied customers. Obviously, this is quite problematic if you are in the customer centricity space. It suggests that all the work a business puts in to drive customer satisfaction is for naught as the end result is no better than doing nothing. Fortunately, Jones and Sasser also found that completely satisfied customers behave differently and are loyal. For example, they reported on a study by John Larson that found that in a service oriented industry like retail banking, customers who are completely satisfied are 42% more likely to remain loyal than those who are merely satisfied. Effectively, the field of customer experience is about the organizational practices that make the difference between mere satisfaction and complete satisfaction. In other words, it specifies how to cost-effectively make customers to be "happy" so that they behave in a way that is valuable to the business. This only occurs when the utility offered to customers takes into consideration their rational and emotional expectations.

Customer Behaviour 101

When you think about it, the customer behaviour any business is interested in can be broken down quite simply into four types. As the diagram below (Basic Customer Behaviours) outlines, the behaviour can be either positive or negative. It can also be described as Walk or Talk. The top two cells in the diagram are the basic behaviours that companies seek to drive. They want customers to become loyal, buy more, and promote the business to others. Every time a customer decides to buy that little bit more or renew or join a service, they have taken a Positive Walk. The bottom two cells

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[1] Thomas O. Jones and W. Earl Sasser, "Why Satisfied Customers Defect", Harvard Business Review, November-December 1995.

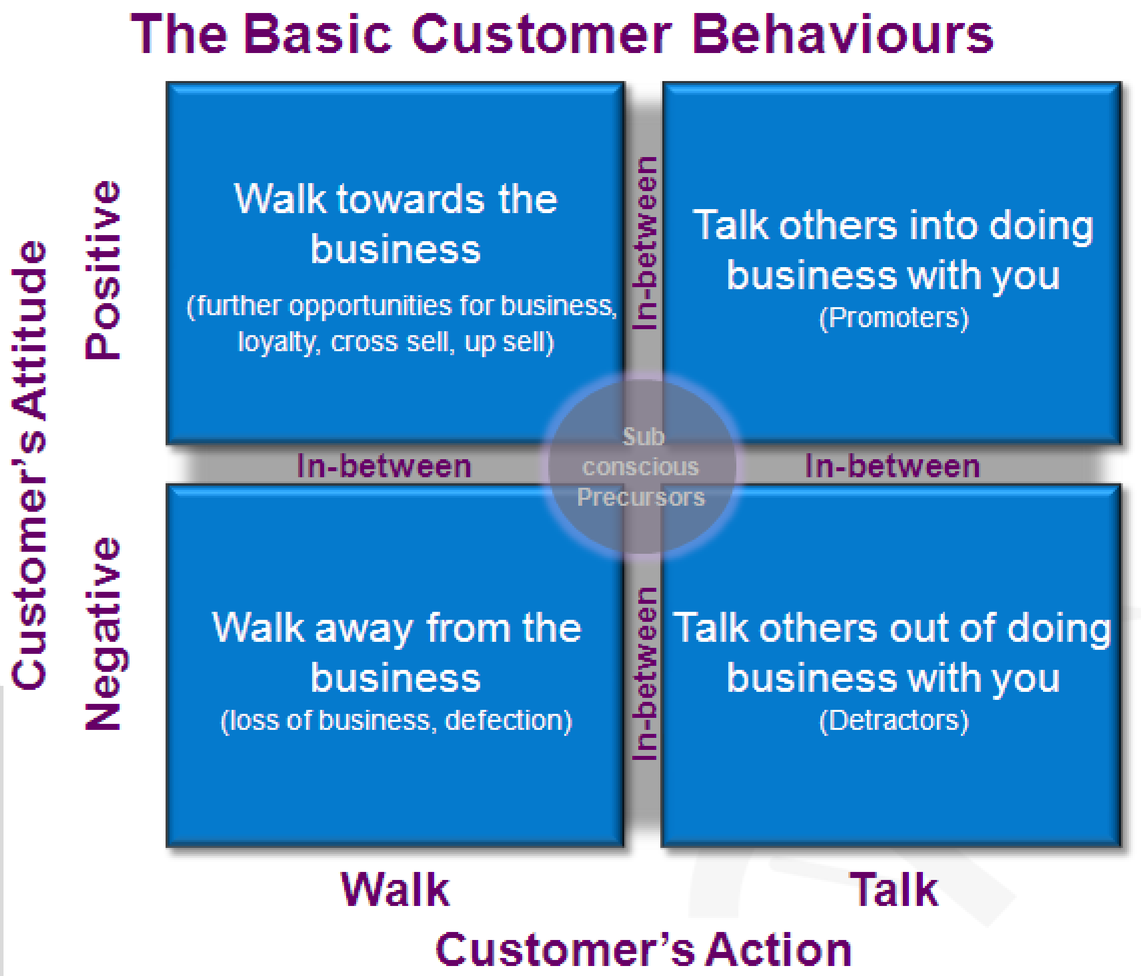
212 Piccadilly
London UK W1J 9HG
T: +44 (0) 207 917 1717
F: +44 (0) 207 439 0262

http://www.beyondphilosophy.com/

One Glenlake Parkway. Suite 700
Atlanta. Georgia 30328. USA
T: (001) 678 638 6162
F: (001) 678 638 6201

are the behaviours businesses seek to minimise. In terms of the attitude, the customer can view the company in either a positive or negative light, or they can still be deciding on which side the company belongs (in-between). Likewise, the customer can either decide to Walk, Talk or be somewhere in-between the two.

When a customer is in-between on attitude and action, they can be described as having the subconscious precursors of behaviour. That is to say that while they are having interactions with the business, these interactions are not strong enough to register consciously in attitude or action. All the relevant information that is being processed internally is done via subconscious mechanisms. These effectively are the precursors to attitudes and behaviours that will follow.



The bottom two boxes are what business nightmares are made of. Most large corporations will have dedicated some resource to figuring out how to contain and minimise the negative behaviours. The behaviours are the nightmares that keep businesses up at night. Rational businesses can become quite focused and shocked into action when any of the following five no-brainer situations occur:

- A key account switches to a competitor
- A trend occurs where a number of customers are defecting
- A trend in a reduction in ARPU[2] across a group of customers
- A high profile customer's complaint is aired in public (e.g., a celebrity or talk show host complains)

[2] Average Revenue Per User (= average revenue per customer)

- A customer airs his gripe via social media and it becomes viral

The first three situations (all Negative Walks) are likely to be telegraphed in the preceding period/s via a series of noticeable Negative Talk behaviours. These Negative Talks often occur before the Negative Walk becomes manifest. Of course, it is possible for an individual customer to "suddenly" display Negative Walk behaviour. However, even then, other customers' Negative Talk should alert the business that Negative Walks are on the horizon –even if the exact individuals cannot be pinpointed ahead of time. The most enlightened businesses employ sophisticated cutting edge methods[3] to illuminate the subconscious precursors of Negative Walks (and Negative Talks).

A Simple Walkie-Talkie Model of Customer Experience

It is possible to classify your customer base using the Walkie-Talkie Model. All it requires is to answer the following five questions:

- *How many customers do you have*?
- *What percentage of customers say their expectations have been met*? Alternatively, the question could be "What *percentage of customers are satisfied*?"
- *What percentage of customers whose expectation have not been met (or dissatisfied customers) defect*?
- *It is a bonus if your company knows its Net Promoter Score because that means you will know the answer to the question "What percentage of our customers are Detractors?"*

Using these questions or facsimiles thereof, it is possible to construct a Walkie-Talkie model of Customer Experience for your business. Our focus here is on bad customer experience and the four key precursor decisions customers make as they assess their position at any given time in that experience.

[3] Raw methods which can shed light on subconscious precursors to behaviour include artificial neural networks, fMRI studies and evolutionary game theory. Beyond Philosophy's Emotional Signature is a leading edge but business-ready approach that accomplishes the same.

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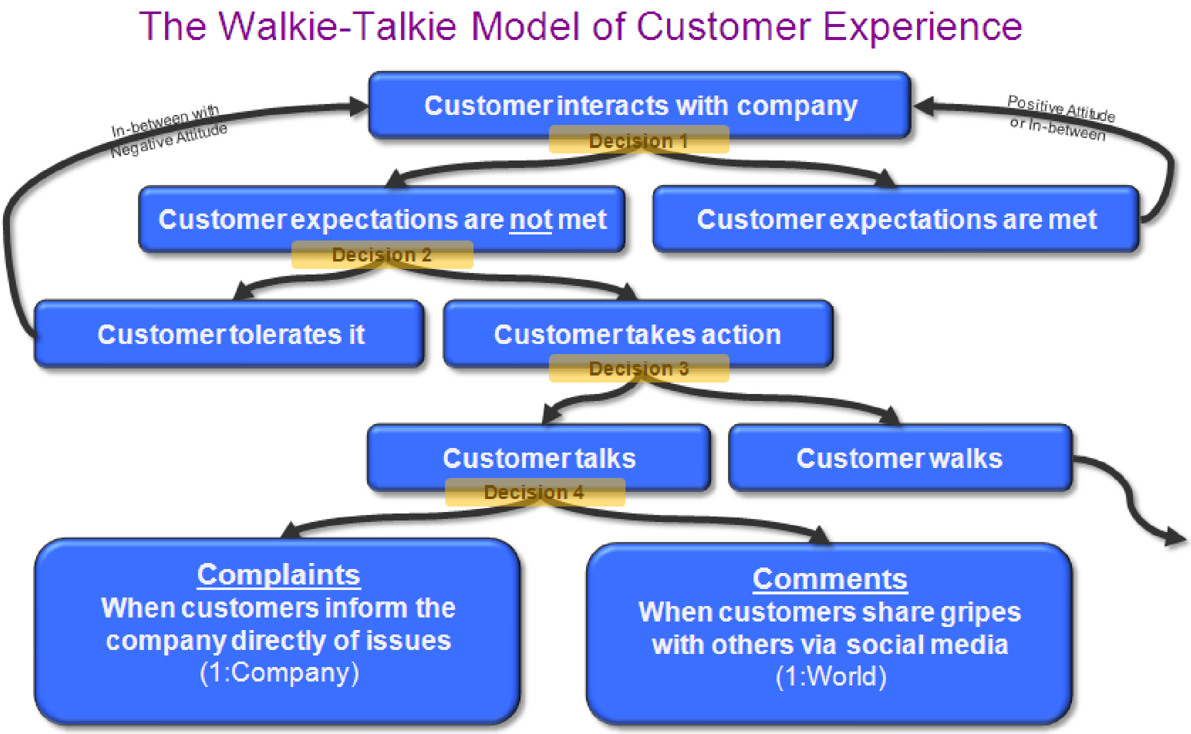


First, we need some understanding of the number of interactions, the scale of your customer experience universe. The number of customers can be used as a proxy for the sum total of interactions the organization has with customers because a customer by definition has some sort of interaction with the company. Each customer is a walking and talking amalgamation of the interactions they have had with the company over time. Each new interaction is a decision point - that customer's point of power. At each interaction they can Walk, Talk or be somewhere in between. To get to that final decision, there are a few precursor decisions.

Precursor Decision 1 is determining whether expectations have been met or not. If expectations have been met or exceeded, the customer develops a Positive Attitude and over time this may translate into a Positive Walk. Again, our focus in this paper is on bad experience (where the business loses money) so we do not go into any detail here on the mechanics of the Positive Walk. We focus on bad experience because t

On average, only 6% of customers believe businesses know their expectations[4]. In other words, a full 94% of customers do not believe business understand what their expectations are. It is difficult to meet or exceed expectations if those expectations are unknown and it is customers who decide if organizations understand them.

If expectations have not been met then Precursor Decision 2 comes into play. It is deciding whether to tolerate the bad situation or act on it. Tolerating it is what customers do on most occasions. It can be estimated that about 34% of customers (i.e. Detractors + Defectors) decide to act based on the following:

- 33% of customers are Detractors[5] (i.e. Negative Talkers)
- On average, 45% of customers who are dissatisfied with the experience defect[6] (Negative Walkers). This is the equivalent of 1% of all customers. While typical overall defections

[4] Beyond Philosophy's Customer Experience Tracker, 2010
[5] Fred Reicheld, Ultimate Question, Interview with the author

rates are around 15%[7], this would include those customers who have left for reasons other than to do with poor experience, such as moving into a geographic not served by the business, etc.

Precursor Decision 3 is the choice of how to act, Walk or Talk. We have already learned that 33% of customers are Negative Talkers (Detractors) while 45% of dissatisfied customers or 1% of all customers are Negative Walkers (defectors). Precursor Decision 4 relates to Negative Talkers specifically. Should they make a formal complaint or should they comment negatively to friends or via social media.

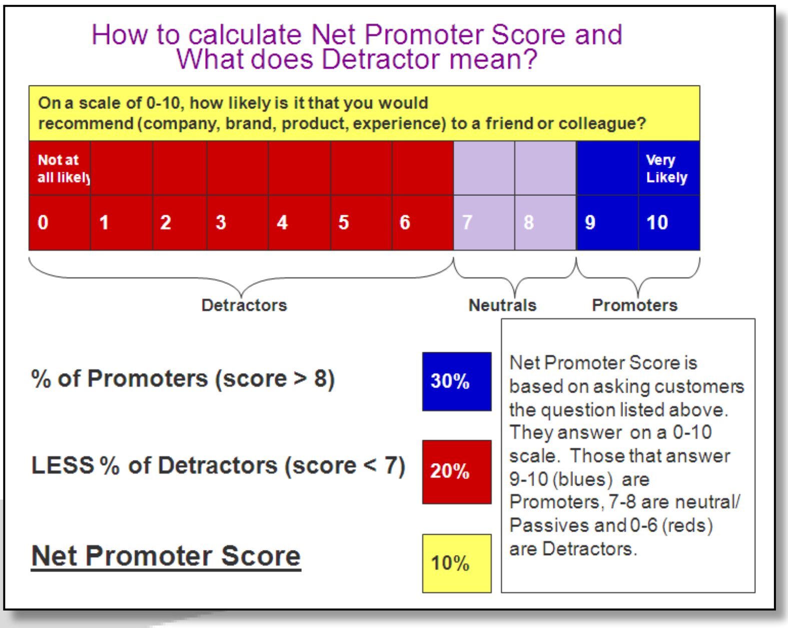
We make a clear distinction between complaints and negative comments. Complaints are defined as Negative Talk where the customer intends to inform the company in a 1 to 1 fashion. Effectively, the customer intends to inform the company directly of a situation and expects some sort of meaningful response. Roughly, about 4% of customers complain[8].

Negative Comments (Comments hereafter) refers to Negative Talk that is not intended for the company specifically but often for the world at large via social media. However, it should be pointed out that customers do appreciate and are generally surprised by a company's genuine response to comments via social media. Just over a 1/3 of people who comment via social media are "surprised" that they got a response and almost half are satisfied with that response[9]. Of course, there many customers that complain and comment. Indeed, 40% of the people who complain also comment via social media[8].

It is difficult to pinpoint the number customers who talk negatively because much of this behaviour is hidden. It is done between friends in ones' own social circle in private conversations or via social media like Facebook that is not entirely open access. In some cases it occurs in Social Media like Twitter that is open access.

If your organization uses Net Promoter Score (see insert), you may use the percentage of Detractors as a proxy for the Negative Talkers. You might consider only using the serious Detractors, those scoring in the 0-4 range if you want to be a bit more conservative. If your organization does not use Net Promoter Score or an equivalent, then you may substitute either of the following:

- 33% of customers are Detractors based on the Net Promoter Score for the average company[10]
- 14% of British customers have complained via social media[11]



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[6] Satmetrix, How to Increase Bottom Line Profits by Improving Customer Experiences, July 2003
[7] Lynn Thomas, Customer Loyalty and Retention Primer, CBS Money Watch.com, 1998 and Nick Senzee, What's a Good Retention Rate, Nick's Book Blog, 2006
[8] Satmetrix,
[9] Beyond Philosophy's Customer Experience Tracker, 2010
[10] Fred Reicheld, Ultimate Question, Interview with the author.

As a benchmark rule of thumb, we can assume that about 29% of customers are Negative Talkers (i.e., 29% Negative Talkers = 33% Detractors – 4% Complainers).

The point of this simple model is that it provides any organization with a simple structure to gauge the cost of not focusing on their customers' experience. Often times, the most obvious things need a bit of structure to help align thinking. We recommend the following:

- Build this or a similar model for your organization regardless of where your organization stands with regard to customer experience.
- Get answers to the questions:
    - *What percentage of customers say their expectations have been met*? Alternatively, the question could be "What *percentage of customers are satisfied*?"
    - *What percentage of customers whose expectation have not been met (or dissatisfied customers) defect*?
    - *It is a bonus if your company knows its Net Promoter Score because that means you will know the answer to the question "What percentage of our customers are Detractors?"*
- Don't get bogged down in the detail of trying to construct a model that accounts for every eventuality. The point of the simplicity is for the average employee to understand, pay attention to and remember it.
- Get Finance to agree that it is a reasonable model and get them to sign off on the numbers used in the model.
- Have it at the ready for immediate use in key meetings. Drop the findings in reports of all sorts.
- Make it your objective for others in the organization to quote figures from the model. If no one uses the figures, it will be difficult for the organization to take steps forward.

[11] LoudHouse, May 2010 online study based on 1,505 users of social media

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