

Why The Fundamentals Are No Longer Good Enough

Michael Lowenstein

MAY 2016

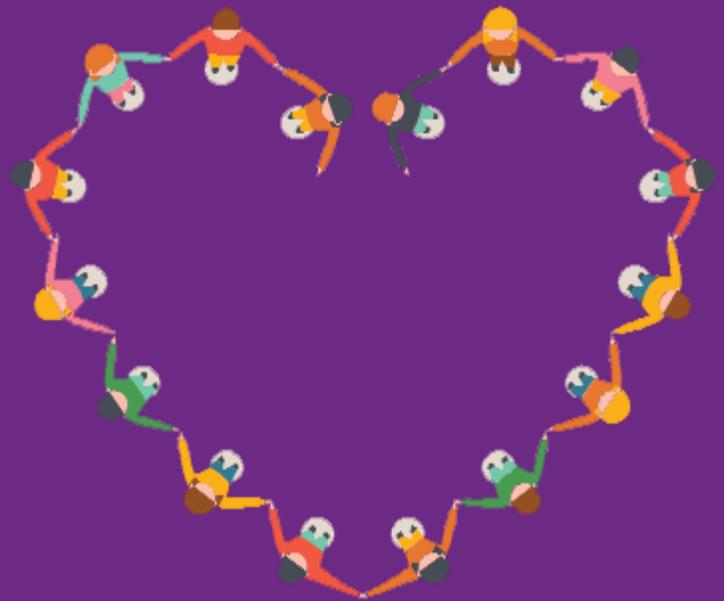


BEYOND PHILOSOPHY
Building Great Customer Experiences

Why The Fundamentals Are No Longer Good Enough

One-Trick Ponies, Groupon Effect, Experience Optimization, and Customer Advocacy Behavior

Michael Lowenstein, Thought Leadership Principal, Beyond Philosophy



The Challenge of Being a One-Trick Pony

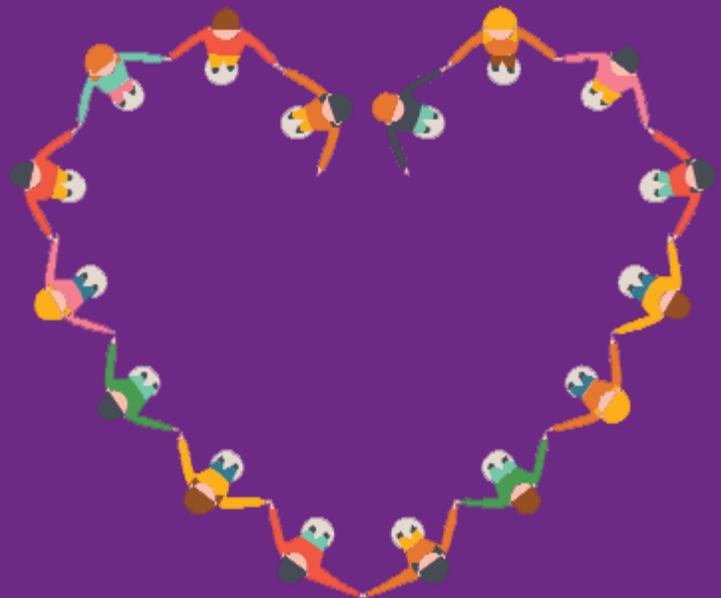
About thirty years ago, Paul Simon wrote a song entitled “One-Trick Pony”. The song describes a performing pony that has learned only one trick, and he succeeds or fails with the audience based on how well he executes it. As Simon conveys in the lyrics: “He’s got one trick to last a lifetime. It’s the principal source of his revenue.”

This song, and its message, are something of a metaphor for what challenges many companies endeavoring to create customer advocacy behavior and relationships, leading to more frequent purchase activity, through customer experience and loyalty programs.

A key reason companies have a difficult time achieving optimum customer loyalty is that they fail to provide full value fundamentals. They focus on satisfying customers exclusively through basic rational and functional benefits, which is often too benign and passive an approach to create strategic perceived value.

Mostly, they emphasize single element or minimal element tactical approaches with customers, such as pricing, merchandise, loyalty cards, or points-based programs, without determining (either before programs are launched or after they are up and running) whether this is sufficient motivation for building a long-term relationship. Smart marketers know that, for instance, being a low-cost provider can be a trap and that only overall perceived value will prevail. In the United States, chain discount retailers like Caldor, Bradlees, Jamesway, Ames, and Kmart are either in trouble or have gone out of business, while Target, Costco and Walmart, with strong brand equity and high perceived value particularly among their demographics, have sustained.

Being a low-cost provider means that brand and customer strategies

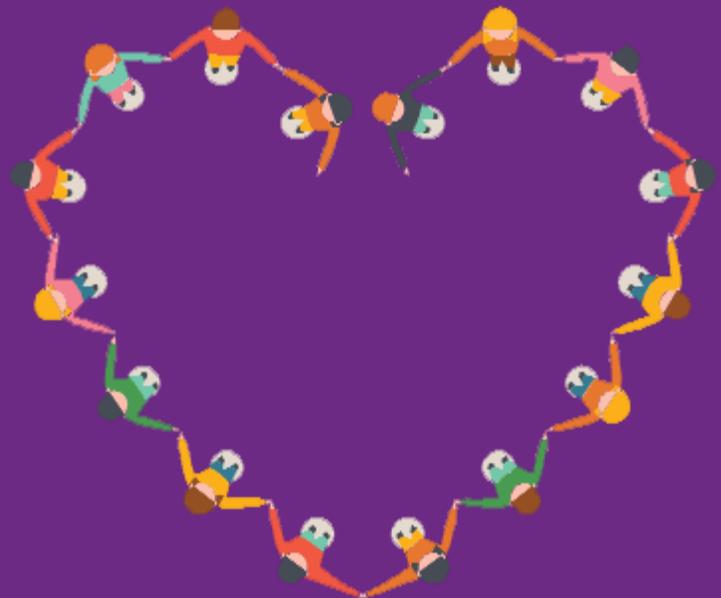


often get little emphasis, and they require little investment. Let's be honest, cutting costs seems safe. Cutting costs seems safe. The downside is that it usually does not produce either much loyalty (customer or staff), strategic differentiation, or profitability.

In a 1980 **Harvard Business Review** article by William Hull (written, parenthetically, about the same time Simon wrote "*One Trick Pony*"), he reported study results comparing companies that competed on differentiated customer value versus companies that competed principally on cost. On any important measure - return on equity, return on capital, and annual revenue growth - companies delivering both rational and relationship value beat the price competitors every time.

Customers can almost always locate cheaper products or services. Ultimately, they will invest a greater share of their purchase dollars with suppliers who deliver superior experiences and value. Competing on price, or any other single dimension, may pull away customers from other suppliers in the short run, but it will be difficult to keep them for long. Price is rarely a sufficient 'barrier to exit', and is more often an invitation to churn.

The same thing often holds true for incentive programs. Many consumers participate in programs like supermarket bonus clubs and airline frequent flyer programs, but they aren't particularly effective at producing greater loyalty for any one airline or any one supermarket chain. Customers are often members of several programs, and the most active users tend to be those who would have been frequent purchasers anyway. The incentive and reward structure more often benefits the already loyal rather than increasing loyalty. Gift programs, travel, dining, entertainment, merchandise, and cash award programs, and other plateau and pre-selected response stimulus programs are having an increasingly difficult time breaking through the clutter to provide



unique, differentiated customer value.

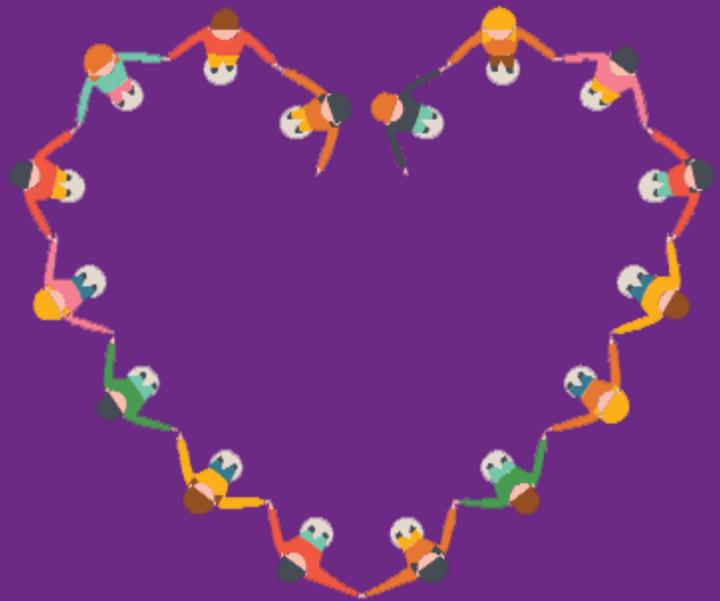
So, Why is Groupon Successful?

Generic, cookie-cutter and 'me-too' discounts or incentives don't do particularly well at increasing overall customer 'share of wallet', because they don't sufficiently reward the customer for their enhanced purchase activity over time. All that's really required to meet the customer halfway is infusion of some targeted, personalized elements to the incentive program to make them more attractive and beneficial.

Stating that all customers are not created equal is hardly an oversimplification. But, just like the pigs in Orwell's Animal Farm, some customers are more equal than others. No company has unlimited resources to equally service or support all their customers. Repeat buying power, the essence of customer loyalty, is everything. Some customers are worth a great deal, some may become more valuable over time, some may be valuable for a brief period but may be easily lured away, and some are never likely to become valuable.

At minimum, companies need to segment their customers so they can determine how much longer that customer will remain with them, how much revenue each customer will contribute, how much and what kind of services the customer should receive, and what efforts will be needed to keep them whether they are new, at risk, or even already lost. Also, if a company is changing product or service focus - such as beginning a new CRM or frequency marketing program - decisions will have to be made about which customers they want to retain.

Just as companies are becoming smarter about keeping the customers they want, or 'firing' less attractive customers through stepped-down services, they have to invest more up-front in learning which potential customers will be the most valuable over time. This goes beyond segmentation. It is almost pre-segmentation.

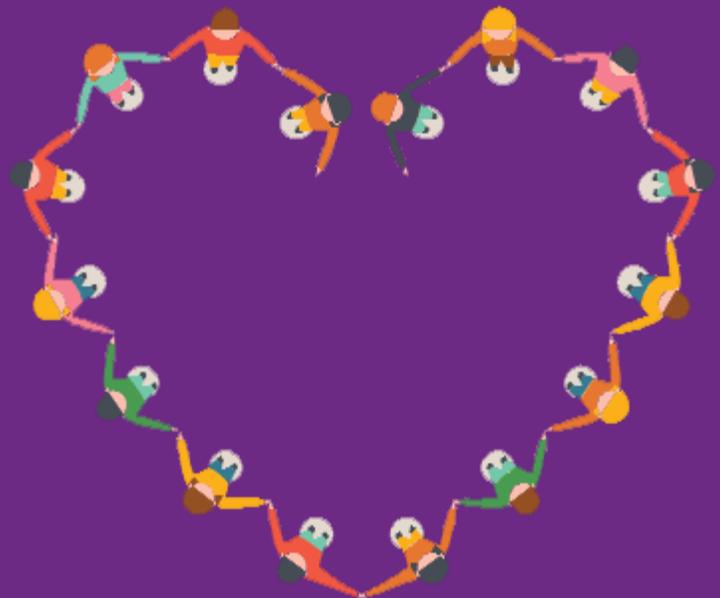


Enter Groupon. Formed in 2007 to appeal principally to tech savvy women in their 20's to 40's, Groupon offers both collective buying advantages to consumers and an attractive, no out-of-pocket , investment for product and services to (potentially) get first time customers. The proposition and rules are simple. Every day, new local deals are featured on Groupon's home page, sent to subscribers via email, and updated on their iPhone app. A retail or service company offers a coupon, usually on a dollars or percentage-off basis, and sets the minimum number of buyers needed to purchase the coupon during a specified period before the coupon will be honored . If that minimum number is met, the company honors all coupons. If the minimum isn't reached, the deal is cancelled. Groupon makes its money by taking a percentage of the coupon amount for each coupon purchased.

The companies participating believe that this is a lowercost, higher-effectiveness way of reaching and attracting new customers. Groupon sees their service as appealing to a community of consumers who are seeking new experiences. Businesses like it because their is no direct cost involved, and the promotion exposes them to potential new customers.

There are potential downsides for the companies participating, however. Groupon offers no tools to help businesses manage the number of coupons sold. Businesses have reported being swamped, pushing their ability to serve customers. In addition, some businesses complain that they are getting only low-cost trial, without higher profit repeat patronage. So, there continues to be some question as to Groupon's real value, to customers, sponsors, and investors. This, unfortunately, carries some of the challenge associated with 'one-trick pony' pricing competition.

**Experience
Optimization
and.....**



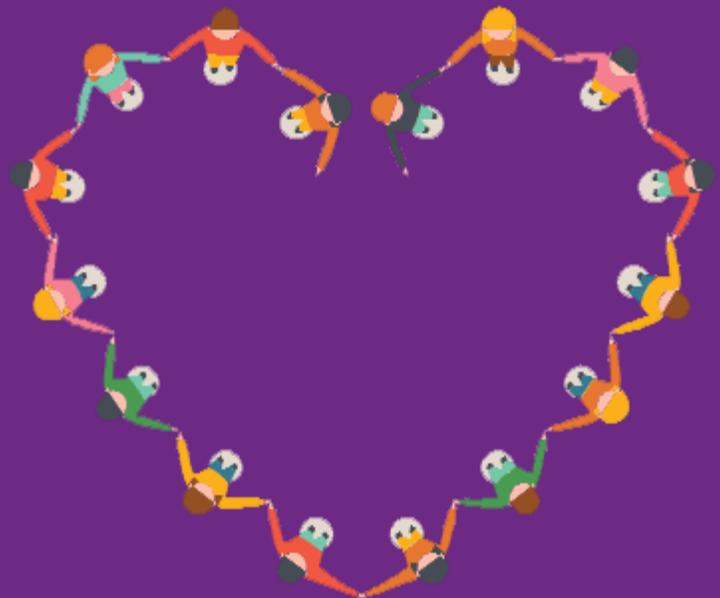
Customer experience is supposed to be about creating, and optimizing, relationships with customers; however, experience and support initiatives, frequently through service operations are, typically, are almost all about the technology: software systems, sales contact management, data warehousing, and so on. Apart from that, in this era of steadily shrinking resources, the emphasis has also been on tight budget controls, doing the most with the least. People, especially customer-facing staff, have also largely been an afterthought in experience and strategies.

Customer service representatives (CSRs) across the United States handle an average of 2,000 customer interactions each week. If CSR's are not aligned with the overall experience strategy, indeed are not directly involved with creating and executing the strategy, this can represent 2,000 opportunities to put customers at risk or lose them.

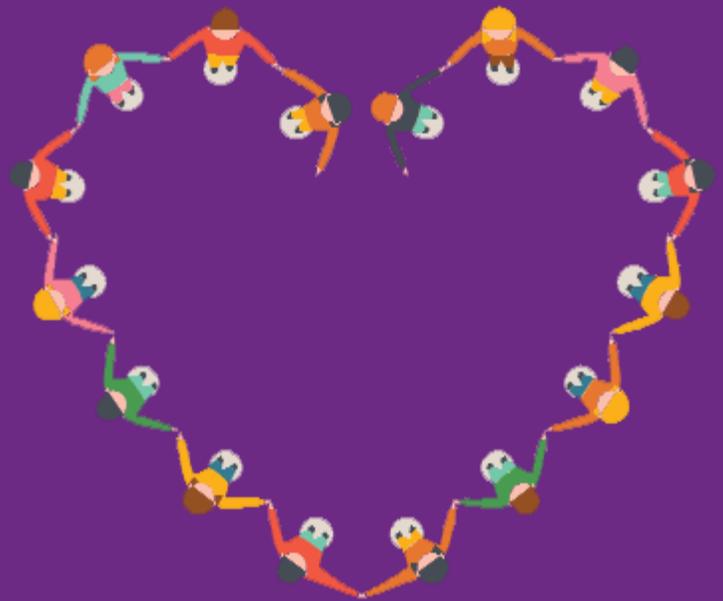
Placing the customer first, or complete focus on customers, two of the clarion calls of customer experience optimization, have a hollow ring if strategies aren't drilled down and reduced to a point where CSRs' daily efforts can have a positive impact on customer loyalty. These centers of customer contact now represent the principal touch point with customers; and, beyond technology, they have the capability to generate and manage a continuous flow of customer information, and to increase customer loyalty.

.....Customer Advocacy Behavior (and Measurement)

Paul Simon's song lyrics conclude: ".....the bag of tricks it takes to get me through my working day." Companies would be well-served to have a bag of customer experience and customer loyalty tricks, using disciplined research and customer data to identify them, rather than relying on only one - price - to get them through.



We're often asked if there is a metric or a framework, which represents the most actionable, contemporary, and real-world, basis for managing, optimizing, and leveraging customer experience. After a decade of researching and validating the causative downstream behavior predictive powers of word-of-mouth and brand favorability driver and in many b2b and b2c verticals around the world, our belief is that it is customer advocacy and bonding. It's also one of the most effective experience research and analytical templates for leading any enterprise toward higher levels of customer centricity.



Additional Resources

You may be interested in reading some of our other blogs and resources on this subject:

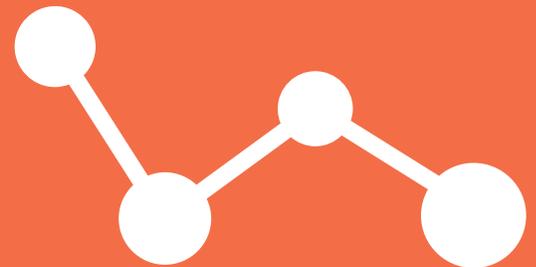
[Changing Customer Behavior With A Little Nudge](#)

[The Secret To Rewarding Customer Loyalty](#)

[Industry Secrets Leaked - Predicting Customer Behavior!](#)

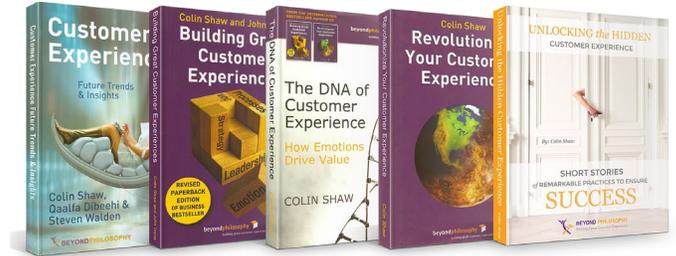
[Webinar: How To Design And Build An Effective Loyalty Program](#)

[Book: Unlocking The Hidden Customer Experience](#)



About Beyond Philosophy

Beyond Philosophy are literally the world's first dedicated Customer Experience company. Founded in 2002 by our CEO, Colin Shaw, we have built an excellent reputation of being Thought Leaders in Customer Experience.



This is not what we say, it's what other say. We are proud that Colin Shaw our CEO, has been recognized by LinkedIn as being one of the world's top 150 Business Influencers and by Brand Quarterly as one of the 'Top 50 Marketing Thought leaders over 50' and written 5 books on Customer Experience.

Beyond Philosophy help organizations move to the next level of the customer experience . There are many case studies that highlight our work. One of our clients Maersk Line, improved their net promoter score by 40 points in 30 months and then had a 10% rise in shipping volumes as a result of our work.

Beyond Philosophy provide three services.

Consultancy services – both strategic and tactical so we can help guide you to improve your customer experience.

Training services – we can train your CX team on how to improve your customer experience as well as your front line team with our memory maker training.

Specialized research services – we provide some innovative research techniques that discover what drives and destroys value for your organization.

If you'd like further information and please contact Beyond Philosophy LLC on our website Beyondphilosophy.com.

Follow Beyond Philosophy:



@Colinshaw_CX | @BeyondP



LinkedIn - Colin Shaw



Periscope - @colinshaw_CX



Facebook - Beyond Philosophy

Beyond Philosophy LLC, USA.

550 North Reo Street Suite 300

Tampa, Florida. 33609

Toll Free: +1 (866) 649-6556

Outside USA: +1 (813) 936-4000

Beyond Philosophy Europe.

London, UK: + 44 (0) 207 993 8459

©Beyond Philosophy LLC 2001-2016. All rights reserved.

