HOOKED ON CUSTOMERS

The Five Habits of Legendary Customer-Centric Companies

Robert G. Thompson

2014
Praise for *Hooked On Customers*

“Bob Thompson draws on decades of his experience and research, as well as the insights of thought leaders in the field of customer-driven business strategy, to distill timeless principles for winning the minds and hearts of buyers—and growing profits. The book is full of data, examples, and case studies spotlighting innovative practices that you can use immediately.”

—William Band, vice-president and principal analyst for Forrester Research, Inc.

“*Hooked on Customers* is a remarkable book, inspired by genius! Bob Thompson has packed powerful prose backed by solid research in a book that reads like a novel, not a textbook. Chock-full of solid advice illustrated by poignant examples, he has put his pen on the pulse of how great leaders create, nurture, and sustain organizations renowned for growth-producing customer-centric practices. If you care about your customers, don’t miss this great book.”

—Chip R. Bell, author of *The 9 ½ Principles of Innovative Service*
“Bob Thompson has written an outstanding guide for those people and organizations truly committed to being customer-centric and creating great customer experiences. It is the most comprehensive study I’ve seen, packed with stories, data, and pragmatic advice to help you build and execute your strategy to be a customer-centric business. Thompson has filled his book with examples and data to help you better understand what “best in class” organizations do and the results that can be produced. Don’t just read it, use it as a working guide to help you develop and execute your plan to create a business that focuses on its customers and drives great customer loyalty.”

—Dave Brock, founder of Partners In EXCELLENCE

“Once you decide that a customer-centric culture is the only path to sustainable differentiation in your business, you need this book to outline your path forward. Bob Thompson is the go-to guy on customer strategies. His common sense and practical ideas will leave you wishing you had had this book years ago.”

—Greg Gianforte, founder of RightNow, coauthor of Attack of the Customers

“Very few people have Bob Thompson’s vast experience and understanding of the tools and strategies for customer-centric business, combined with an instinct for business success. Together, the knowledge creates an outstanding resource. In this book, Thompson generously shares his most practical and useful advice to inspire customer-centric leaders to emerge and energetically drive success for their businesses.”

—Pat Gibbons, senior vice-president of marketing for Walker
“When it comes to customer-based business strategies, Bob Thompson is one of the deepest thinkers I know. He ceaselessly looks for new insights, for proven strategies, for missing answers, and for new ways to learn. In this book, Thompson has crammed two decades of experience to tell you precisely what to never do and then explains what you should always do. It’s a true gem.”

—Bruce Kasanoff, founder of Now Possible, coauthor of *Smart Customers, Stupid Companies*

“This is a must-read for practitioners and anyone involved in managing and capturing the voice of the customer. Bob Thompson puts the issues and challenges in context, then rightfully acknowledges and pushes beyond the subject of strategy with a relentless focus on execution and implementation. Honing in on the practical ‘hows’ and ‘whats,’ this is a book about doing. After this, Thompson may have to change the name of his company from CustomerThink to CustomerAction.”

—Howard Lax, senior vice-president for GfK Custom Research North America

“Three words describe Bob Thompson’s approach to customer-first business: sound, sound, sound. Throughout all the years I’ve known him, he has never gone for the latest sound bite or slogan. Everything Thompson says and writes is thoughtful and well considered. Plus, I know no one more knowledgeable in this field. He’s a trusty guide and writes well to boot!”

—Dick Lee, founder of High-Yield Methods, author of *The Customer Relationship Survival Guide*
“Comprehensive and concise! After reading the book, I have a feeling that I’d grasped the most important elements out of the topics of CRM and CEM. Thompson wrote it in a way that it’s so easy to read, understand, and remember, integrating human factors and technologies. ‘Food for thought’ will stimulate readers to think of their own situations.”

—Sampson Lee, founder of Global CEM Organization

“Hooked on Customers reveals the secret to running a customer-centric business. It’s not what you say but rather what you do. Great companies forge a culture of “doing” that engrains five habits: listen, think, empower, create, and delight. Bob Thompson pulls back the curtain, showing how each of these behaviors interrelates to create the overall customer experience. The book is a must-read for any leader who wants to win the hearts of their employees and customers.”

—Stan Phelps, founder of 9 Inch Marketing, author of What’s Your Purple Goldfish?

“When I’ve read definitions of customer-centricity, they’ve been across the map, from ‘It’s a culture’ to ‘It’s a process’ to ‘It’s really a way of thinking.’ Although these perspectives are helpful, the range of opinion points to a challenge: making customer-centricity pragmatic in a business strategy is about as easy as picking up a raw egg with a fork. Hooked on Customers offers excellent thought on this challenging topic and provides useful definitions and real-world examples in an organized, easy-to-follow outline. Most important, Bob Thompson’s book asks and
answers some vexing questions about customer-centricity, absent the cliché hype that we often see written on the topic.”

—Andrew Rudin, managing principal for Outside Technologies, Inc.

“Bob Thompson has been at the epicenter of the customer movement for over ten years. He has his finger on the pulse of the latest trends and is connected with many of the leading authors around the world. No wonder then his new book is a treasure trove of insights, references, and tips. His five-step model is deceptively simple but contains a great deal of best practice gleaned over the years. If you are in any way interested in customer-centricity, this will be a welcome addition to your bookshelf.”

—Shaun Smith, coauthor of Bold: How to Be Brave in Business and Win

Hooked on Customers can be found at the crossroads of “the customer is always right” and “data-driven business.” It is decidedly not a flag-waving cheerleader for some new buzzword management practice but a sound review of the latest case studies and technical advances to help you understand the value of creating a better customer experience as a path to profitability. This is the book that can help you change your corporate culture to the delight of your customers.”

—Jim Sterne, founder of Target Marketing of Santa Barbara, author of Social Media Metrics

“Bob Thompson asks questions that make you think, but also, that make you want to act. To stop doing what you’ve always done and start
doing what you need to do. In *Hooked on Customers*, each chapter outlines important parts of a customer-centric orientation; each ends with questions that, when you can answer directly, will take you well down the path to success.”

—Barry Trailer, managing partner of CSO Insights and author of *Sales Mastery*
For Regina
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Leadership

Between saying and doing, many a pair of shoes is worn out.
Italian proverb

My family has been a Sprint wireless customer for more than ten years. We’re happy now, but six years ago we almost fired Sprint due to dropped calls, billing problems, and limited support for newer smartphones.

Ironically, if we had called to complain often enough, Sprint would have fired us!

That’s right, in June 2007 Sprint fired about one thousand of its fifty-three million wireless customers for excessive calls to the contact center, mostly for billing and general account issues. In termination letters to offending customers, Sprint matter-of-factly said that “the number of inquiries you have made to us during this time has led us to determine that we are unable to meet your current wireless needs.” Sprint generously zeroed out the affected customers’ account balances and said it would not charge an early termination fee.¹¹²

Simple and straightforward. Imminently reasonable. What could possibly go wrong?

First, the decision set off a firestorm of mostly bad publicity at a time when the carrier was struggling to compete with other major wireless
carriers (AT&T, T-Mobile, and Verizon). At the time, Sprint’s customer satisfaction rating was 61, worst in the industry by a wide margin.\textsuperscript{113}

Whoever said that “there’s no such thing as bad publicity” is invited to explain how firing customers helped Sprint. I called company executives “Sprinting Idiots” in a comment on Graham Hill’s 2007 CustomerThink blog post. Since then, that post has accumulated thousands of views—a fraction of the millions of negative impressions that the “Sprint 1000” incident precipitated.\textsuperscript{114}

Second, and perhaps much more important, Sprint didn’t address the reasons for the excessive phone calls. In a customer service equivalent of “shoot the messenger,” management decided that since they had worked to resolve issues to “the best of our ability,” the only option left was to cut loose customers it couldn’t satisfy and cost too much to serve.

In the debate that raged on social media in the following months, some sided with Sprint’s decision because it made economic sense. Why keep customers you can’t serve at a profit? Many others pointed out that firing customers just deludes management that they have solved the underlying problems and doesn’t factor in the cost of the negative publicity.

**Worst to First: Sprint’s Dramatic Turnaround**

To deal with this big hot mess, Sprint’s board of directors appointed Dan Hesse as the new CEO in December 2007. Shortly thereafter, Sprint posted a stunning $30 billion loss for 2007, much of it due to a write-down on the ill-conceived Nextel merger.

Hesse began his tenure by laying off four thousand employees and closing 125 stores. (No word on whether fired workers were invited to join the Sprint 1000 customers at another carrier.) In 2008 Sprint lost five
million subscribers, resulting in a 32 percent year-to-year decline in wireless revenue. Dwindling cash reserves put the company at serious risk of going out of business.\textsuperscript{115}

Fast forward five years and Hesse had accomplished an amazing turnaround. Sprint’s ACSI score climbed ten points to an industry-leading seventy-one—the biggest improvement of any company in any industry—and was ranked number one in call center satisfaction. J.D. Power and Associates ranked Sprint best in the purchase experience among full-service wireless providers for the third year in a row. Revenue and subscriber growth returned, although financial performance was uneven, to put it mildly.\textsuperscript{116}

How did Hesse do it? Given the bleak situation, he could have continued to slash costs, hunker down, and hope for a buyer to rescue the company. Instead, taking a customer-centric approach, he directed the organization to fix its customer service problems and innovate to increase value to customers.

Let’s take a closer look at Sprint’s turnaround though the lens of the five customer-centric habits.

**Listen: Understand What Customers Value; Act on Their Feedback**

In a July 2010 interview, Sprint’s VP of customer experience, Jerry Adriano, spoke candidly about the company’s problems and game plan. He told me their goal was to “improve the end-to-end customer life cycle experience so that customers would choose to stay with Sprint.”

I emphasized “choose” because it’s really the key to this entire turnaround. *Genuine loyalty is a choice by the customer, not a lock-in by the company.* Two-year contracts and employer-mandated phones can give the appearance of
loyalty (retention) while unhappy customers are just waiting for the first chance to bolt.

Adriano says their research found the three biggest drivers of loyalty were:

- **Network quality**: Consumers have come to depend on their cell phones working reliably with good call quality.

- **Competitive pricing**: With most families having multiple subscribers, cost must be competitive to fit budgets.

- **Problem resolution**: While smartphones have expanded capabilities and created complexity, customers still expect problems to be resolved in a timely manner.¹¹⁷

Sprint “listened” to customer feedback using transactional data, customer escalations, industry benchmarks, and social media. Poor service experiences was determined to be the major culprit in customer dissatisfaction, which deteriorated due to cost cutting after the 2005 Nextel merger. In all, they identified thirty-five to forty problems driving dissatisfaction. One simple example was an “over engineered” rebate process that frustrated customers and drove unnecessary Sprint calls and store visits.

**Think: Make Smart, Fact-Based Decisions**

The current hype about “big data” and analytics might lead you to believe that you can feed data into an analytics tool and have the “answer” pop out. Nothing could be further from the truth.
In Sprint’s case, Adriano’s team needed to prioritize problems to be fixed, so they could drive stakeholders to address issues. Although he had CEO-level support, it didn’t give his team a “sheriff’s badge and a gun” to force change. Two initiatives helped motivate stakeholders:

- Documenting an “ideal customer experience” that detailed what customers expected and needed and identified areas for improvement

- Creating a compelling business case for fixing service problems based on cost per call, a well-established metric with clear business impact

Sprint had double the call volume of its competitors, which cost the company millions of dollars per year. This actually helped the business case, because fixing service issues was relatively easy to justify based on cutting call volume. Improving retention rates was an additional, albeit more long-term, benefit.

Certain problems required sophisticated cross-channel analytics to uncover. Lance Williams, Sprint’s director of customer management, explained that in 2008 Sprint had the worst IVR customer satisfaction in the industry. Analytics revealed why customers quit an IVR interaction to call a live agent. Armed with this insight, they made usability improvements that vaulted Sprint’s IVR customer satisfaction into an industry-leading position by Q4 2009. As a result, the contact center completed “tens of millions more calls” in the IVR in 2009 versus 2008. Sprint’s customers were less frustrated and the carrier reaped huge cost savings.118
Empower: Give Employees Resources and Authority to Serve Customers

Unsurprisingly, given the dire straits of the company in 2008, employee feedback in Glassdoor noted major concerns about Sprint’s future. Here’s one review that illustrates a common perception:

The company is lacking direction right now and with past troubles, the management is struggling to find a strategy to turn around the company. The recent layoffs have disrupted morale and efficiency in the company. News or rumors of future layoffs only make it difficult for employees to focus on their jobs. Constant reorgs are also to blame with efficiency as too many things changed too quickly, again without any direction.

No doubt low morale was a factor in poor customer experiences. In the commentary surrounding the Sprint 1000 debacle, many said that the excessive calls were the result of dealing with Sprint employees who could not take care of a problem, getting transferred around, and even being dropped and having to call back. In short, customers wanted more “one and done” calls.

I’ve written previously that authority, insights, and motivation are key to empowering call center agents to improve first call resolution (FCR) and delight customers. Sprint has invested in an array of call center technologies and software applications to help agents resolve service requests more effectively. However, it’s not clear that any specific solution had a transformative impact. Rather, it was Hesse’s decision to make customer experience a corporate goal, and the use of analytics to focus on the right problems, that made the biggest difference, in my view.
Sprint’s Social Media Ninjas program is a brilliant use of social media to unleash the influence of thousands of employees to rebuild its brand.

I do think Sprint made innovative use of social media to empower its employees to serve as “ambassadors” for the company. An offshoot of its “Employees Helping Customers” initiative, Social Media Ninjas was launched in 2010 to help improve Sprint’s reputation using social media sites like Facebook, Twitter, and YouTube. Jennifer Sniderman, Sprint’s group manager of employee communications, said the program was inspired by discussions about “how to leverage outreach to customers as a competitive advantage.” Customers were taking to social media to vent about problems, so why not equip Sprint employees to engage and help? Sniderman said Ninjas were asked to “have an authentic conversation, talk about what you know, be friendly, help when you can, and answer questions.”

All too often, support issues are dumped on the contact center, including problems created in product development, marketing, or elsewhere. Sprint’s Social Media Ninjas program is a brilliant use of social media to unleash the influence of thousands of employees to rebuild its brand. As of December 2012, 2,700 Ninjas were helping to improve Sprint’s reputation using their personal networks to engage with customers. Inviting all employees to lend a hand helping customers also sends a message that delivering a great customer experience is everyone’s responsibility.

By 2013 employee morale had noticeably improved. On Glassdoor, one account executive employed for eight years called his experience a “wild, awesome ride” and gives Sprint management good marks for innovation,
cleaning out poor performers, and listening to employees. Hesse has earned a 79 percent approval rating, significantly better than his peers at major wireless carriers.

**Create: Produce New Value for Customers and Company**

Larger carriers AT&T and Verizon have low churn rates of approximately 1 percent per month for postpaid wireless, which means relatively few opportunities exist for Sprint to poach customers. Fast, reliable networks, the latest smartphones, and aggressive pricing are essential to woo new customers.

In 2008, while customer service improvements were under way, Hesse also got to work on better solutions and pricing. Shortly thereafter, Sprint launched unlimited data plans, one of the key reasons our family has remained loyal over the years. With service problems mostly in the past, good economics for the family reduces the motivation to switch.

Unfortunately for Sprint, AT&T got initial exclusive rights to Apple’s iPhone when it was launched. In late 2011 Hesse finally added the iPhone, paying dearly for the privilege. He agreed to purchase 30.5 million units worth $20 billion, which will keep the company in the red for years. Still, I like the fact that Hesse went “all in” because without the latest phones, he has little chance to grow. Now that Samsung has become a strong number two in smartphones, Hesse will have more bargaining power in the future.

Sprint’s network has also been a cause for concern. Over five years or so, Hesse wound down the Nextel network and transitioned customers to the main Sprint network. He is still behind his bigger rivals in rolling out the faster LTE networks, but hopes to catch up by the end of 2013.
Add it all up, and my take is that Sprint is still trailing on technology but makes up for it with more compelling all-you-can-eat contracts, which Hesse pledges to continue.

**Delight: Exceed Expectations; Be Remarkable!**

Sadly, “delight” is a word not often heard attributed to wireless telecom carriers. Much of Sprint’s efforts to improve the customer experience I’d classify as fixing dissatisfiers that stimulate churn. At this point late in the book, I hope you remember that lack of pain is not the same as delight. To be a true industry leader and break out of commodity hell, delight is a critical strategy to differentiate and build genuine customer loyalty.

One huge challenge is that smartphone suppliers get credit for “wow” and carriers tend to get blamed for problems. A 2011 Harris Interactive study confirmed that more than two-thirds of US smartphone users surveyed experience network service issues during common activities like Internet searches, data downloads, watching videos, and social networking. Unfortunately nearly half the users blamed their wireless network provider for these issues.121

Sprint’s overall customer satisfaction improved dramatically from a horrible fifty-six in 2008 to a competitive seventy-one in 2013, similar to its major rivals. However, smartphone vendors have enjoyed much higher ratings, especially Apple, which currently tops the charts at eighty-one, using ACSI’s methodology.

Sprint and all wireless providers are in a difficult position, generally viewed as a utility. Forest Morgeson, director of research at ACSI, says wireless telecom is turning into a commoditized market, with similar services and pricing available from several suppliers. ACSI’s research finds that smaller carriers (those grouped in ACSI’s “all others” category) exceed expectations mainly by offering substantially better prices.
On that note, one of the bright spots for Sprint is the award-winning Boost Mobile, which offers no-contract phones and wireless service. Low pricing for unlimited usage, coupled with “shrinking payments” as a reward for loyalty, combine to make “value” a big drawing card.

So is price cutting the answer to delight? No, this is not a viable option for the big carriers, in my view. Customers already view wireless telecom as a utility; this would just be a race to the bottom that could only be won by the carrier with the lowest costs.

The answer may lie in understanding delighters by customer segment. Bain consultants Domenico Azzarello and Mark Kovac sum up the problem well: “With penetration flattening (wireless penetration in the United States, for example, is nearly 100 percent) and competition intensifying, companies must fight for market share as never before.” Bain’s research found that some customers like to be notified when they go over their plan limits, while others value a single point of contact, refunds for dropped calls, referral bonuses, etc.122

Leadership, Metrics, and Rewards

It should be obvious that Hesse’s leadership is the main reason for Sprint’s turnaround. While there is clearly more work needed, the company is in a much stronger position now. The recent merger with Softbank adds $5 billion of new capital to help fund the ongoing battle to deliver the best wireless experience.

It should also be clear that he didn’t make this happen just with speeches and “the customer is king” proclamations. Here are key actions by Hesse that stand out to me:

1. Made the customer experience a top priority, then directed the organization to find and fix the problems that were causing customer dissatisfaction and churn
2. Focused on improving the core “product” being offered by upgrading the wireless network and (eventually) adding the iPhone and other leading smartphones.

3. Recognized that price was a strong lever in a market increasingly viewed as a utility. Unlimited and lower-cost plans have helped Sprint battle back against much larger rivals AT&T and Verizon.

To support these initiatives, Hesse also understood a key point about customer-centric “habits.” Leaders must make new behaviors a part of the culture so it becomes the way business is done routinely. Tops on Hesse’s “magnificent seven” change-drivers is “align compensation and rewards.” Employees must be measured and rewarded for executing any business strategy.123

Looking back on their journey, Jerry Adriano said the three keys to Sprint’s improvements are:

- **Fact based.** Analytics are critical to dissect customer experience problems because “it’s hard to be successful just using opinion.”

- **Long-term vision.** Must be able to define the “end state” that the organization is striving for and explain why the journey is worthwhile.

- **Collaboration.** Yes, strong leadership from the top is a must. But the importance of working with partners who will take suggestions and implement improvements “can’t be overstated.”

The role of chief service officer Bob Johnson (Adriano’s boss) is also interesting. Pre-Hesse, Johnson helped the company execute a cost-cutting
strategy. After Hesse changed direction, Johnson focused the organization on improving the customer experience. This suggests that the role of chief customer officers is still largely supportive of the company’s business strategy, which must be driven by the CEO.

The Journey Continues

Sprint’s turnaround from “worst to first” from 2008 through 2012 is remarkable. However, as this book goes to press, Sprint’s position is competitive but hardly leading in all categories. Churn for postpaid contracts is still hovering around two percent per month, double its larger rivals. One reason: J.D. Power ranks Sprint well behind Verizon in network quality.

This real-world example of five customer-centric habits at work shows there’s not always a pot of gold at the end of the customer-centric rainbow. Sometimes customer-centricity keeps a company in the game to keep up the good fight so it can prevail another day. I hope Sprint does, because as a customer I like much of what the company is doing. And underdogs always make a good story!

Do You Need a Chief Customer Officer?

I used to think that the chief customer officer (CCO) would be a temporary job. I made this prediction in 2007 at a speaker’s dinner before a conference keynote, then was embarrassed to find myself seated next to—you guessed it—a chief customer officer! Fortunately no food fight ensued, but we did have a spirited debate about why the job was needed and how long it would last.

My argument at that time was a CCO isn’t needed if customer-centricity is a part of how a company does business. You rarely see such a job position at companies leading the pack in customer loyalty surveys. With CEO Jeff Bezos at the helm, Amazon.com doesn’t need a chief customer officer.
officer. Cisco doesn’t have one, either. At Zappos, it’s clear that CEO Tony Hsieh is leading their customer-centric culture.

But since then, as I’ve done more research and developed my thinking about the five habits and customer-centric stages, I’ve found that the vast majority of companies could benefit from someone with this role. The reason why is simple: Precious few companies achieve Stage Four in their customer-centric maturity (as explained below), where a CCO is not needed because customer-centricity is engrained into the corporate culture.

For everyone else, the CCO is a leadership position that, in conjunction with the CEO, can help a company progress on its customer-centric journey.

**Orchestrating Customer Experiences**

According to a 2013 Forrest Research report, one of the key responsibilities of the CCO is “orchestrating” experiences. I agree and like this term a lot. It’s been clear to me for a few years that poorly coordinated multi-channel interactions are a huge source of customer frustration. In 2010 I wrote about the need to “harmonize” the cross-channel experience, and I’ve used the analogy of an orchestra conductor in speeches since then. That “conductor” can be the CCO.

“Chief customer officer” remains the most popular term for the “executive leading customer experience (CX) efforts across a business unit or an entire company.” Forrester says they’ve found 730 such leaders, and 45 percent have the CCO title while chief experience officer came in second at just 18 percent.

I was pleased to learn that 85 percent of CCOs sit on the executive management team, a big jump from just 50 percent in 2012. Thankfully, it seems that few companies give the CCO title to a lower level staff position—like someone responsible for rolling up customer satisfaction
reports for the company. That’s important, but not really a leadership role with enough clout. CCOs are most likely to come from prior jobs in operations/process/quality, line-of-business management, or marketing. Less commonly, from sales and customer service.

Jeanne Bliss, a former CCO and author of *Chief Customer Officer: Getting Past Lip Service to Passionate Action*, says the “optimum organization” is a staff organization with a dedicated team, reporting “as high up inside the organization as required, based on the level of change needed.” Even if not reporting directly to the CEO (which I would personally recommend), the CCO should clearly be empowered by the CEO.

A Forrester research report says one precondition for success is a “strategic mandate,” which means “the executive team must define the purpose for appointing a CCO, build customer experience into the company strategy, and adopt companywide customer experience metrics that correlate with key business performance outcomes.”

**Should Silos Be Busted or Tamed?**

If you had a serious health problem, who would you want to diagnose and treat your condition? A specialist, of course. Organization silos such as marketing, sales, support, and product development will never go away because companies need specialists to get jobs done right.

But when customers have to interact with multiple departments, it can be very frustrating. The problem is that as organizations grow and become more specialized and complicated, they tend to have more silos on the inside while offering more customer interaction channels on the outside. The combination can be deadly, because there are lots of opportunities for things to go wrong. Customers won’t get a loyalty-building experience and the company, as vividly illustrated in the Sprint turnaround story, can waste massive amounts of resources fixing these cross-channel or cross-silo problems.
While specialization is needed, so is coordination and cooperation. Bliss says the CCO position is well suited for large, complex organizations that need help with a mission to “pull our organization together and unite efforts to deliver a deliberate customer experience.” That’s what Bliss aptly calls a “human duct tape role” to improve coordination between silos. Metrics are at the source of the problem, because each silo tends to get rewarded for performing its specialty well, even when “success” in one silo causes problems in another.127

I believe one answer is to make sure that silos that should be collaborating have shared goals and metrics. You’re not going to get rid of silos. “Busting silos” is not the mission of the CCO, it should be helping collaborate and serve customers better. This collaboration should start, says Bliss, with annual planning processes, where leaders “start in a united way” to define priorities, responsibilities, and funding.

Customer-centric Maturity Stages

As discussed earlier, customer-centricity has been cast by various industry experts as targeting customers, selling more products to the same customers, or doing whatever customers ask. Still, most people have some vague idea that being customer-centric means building loyal relationships.

In my view, customer-centricity is not a black-and-white proposition. Most companies can claim to be customer-centric to one degree or another. I see customer-centricity as a journey, not a destination. To progress, companies generally evolve through four stages of development under the leadership of the CEO.

1. **Targeted on Customers:** to sell more products and services to the “best” customers
2. **Responsive to Customers:** to make improvements by acting on customer feedback

3. **Engaged with Customers:** creating an emotional bond that drives advocacy behavior

4. **Inspired by Customers:** developing new solutions to solve problems before customers ask!

Now this might suggest that companies start at Stage 1 and progress to Stage 4 over time. Some do, but that’s not the only pattern. Think about new companies that bring innovative solutions to the market to rave reviews by their customers. But later, as the business grows, they can’t duplicate that initial hit and lose touch with their customers. Calcification sets in, and the firm devolves to aggressive marketing and selling to push
solutions without dealing with customer problems. Eventually, the company will disappear or be acquired.

Also, while it’s true that most stage-four companies are highly profitable, it doesn’t mean you can’t make money at other stages. For example, large US retail banks don’t earn high loyalty ratings. The ACSI average for the banking industry was a respectable seventy-seven in 2012. However, all of the major US banks (JPMorgan Chase, Wells Fargo, Citigroup, and Bank of America) were below average. The “other” firms—mostly regional banks and credit unions—averaged seventy-nine to bring up the industry average.

According to 2013 research by PeopleMetrics, community banks do a much better job creating an emotional bond in relationships where customers feel “valued,” “appreciated,” and “cared for.” National banks are focusing more on digital interactions (e.g., mobile banking) and internal automation.128

But banks and other stage-one companies can continue to profit so long as their major competitors do the same. They leverage technology, improve their targeting, closing techniques, and so on to maximize their return. This is the CRM or “value extraction” thinking that dominates the corporate world.

This opens the door for generally smaller and more innovative firms to focus on increasing value delivery. The innovators in retail banking are small firms like Ally and Umpqua in the US, and First Direct and Metro in the UK. These firms try harder to delight their customers and deliver innovative solutions. Eventually, if enough customers shift to the upstarts, these firms will become the new leaders in retail banking.

Let’s take a closer look at the four stages.
Stage 1: Targeted on Customers

Mantra: “We know our customers and what they buy and optimize marketing, sales, and customer service activities to generate more revenue and profit for the company.”

This is where most CRM efforts start and end. It’s not really about the customer; it’s about the customer’s money! A classic example of this is Ryanair, which by all accounts has been successful with a low-cost strategy aimed at a price-sensitive segment of the European air travel market. Passengers have little good to say about their experience, leading many to question whether the model is sustainable when more customer-friendly competitors emerge. Still, the model is working; low price can drive retention-based loyalty for some customers.

There are many examples of process automation delivering a solid ROI, including CRM projects that deliver a good payback two-thirds of the time. However, benefits tend to be more tactical: streamlined processes, improved decision-making, and lower cost. Improving customer loyalty, a key selling point in CRM’s heyday, has not been reported as an outcome in the majority of CRM projects.

Stage 2: Responsive to Customers

Mantra: “We regularly get customer feedback, prioritize key issues, and work to improve customer satisfaction with the products and services we sell, to minimize customer attrition.”

In the past few years we’ve seen a rush to gather feedback and fix customer problems, with Voice of Customer initiatives using Enterprise Feedback Management (EFM) technology. In part to differentiate, but let’s be honest, the growing power of “social customers” has made customer satisfaction mission-critical. Just ask United Airlines, which suffered as a result of the United Breaks Guitars incident. A video uploaded
July 6, 2009, by the aggrieved musician Dave Carroll had accumulated thirteen million views in the following four years.129

Unfortunately, most companies are stuck in “fix it” mode and haven’t figured out yet how to create innovative experiences that delight customers. A few years ago, Sprint struggled with quality of service (e.g., dropped calls) and customer support issues that caused customers to churn. They eventually fixed both to return to a competitive position. However, industry leadership usually requires more than “not screwing up.”

Stage 3: Engaged with Customers

Mantra: “We focus on a long-term relationship and strive to make an emotional connection with customers by providing delightful experiences that create advocates.”

When I think of long-term relationships, my mind wanders back to my days at IBM. While products were not always great, customers trusted IBM to stick with them over the long term, and there was a two-way dialog especially with larger accounts. Cisco has a similar mind-set. In a discussion with an executive there, I learned they regularly assess what drives customer loyalty and make frequent adjustments.

For B2C, Zappos is the quintessential example because founder/CEO Tony Hsieh has made amazing customer service a differentiator and integral to their culture. Once I bet someone $100 that if they contacted Zappos about a problem, they would be happy with how it was handled. I didn’t lose my bet!

Stage 4: Inspired by Customers

Mantra: “We think deeply about what customers are trying to accomplish in their business and personal lives and create new ways to add value before they ask!”
In my research, I found that less than 10 percent of companies reach this stage. Those that do earn outsized returns. Of course Apple is the quintessential example. Despite the folklore that Steve Jobs didn’t do customer research, Apple worked very hard to understand what customers needed and desired, then innovated to produce a string of hits starting with the iPod more than a decade ago. Meanwhile, Nokia, Blackberry, Sony, and other former handset leaders missed opportunities to integrate consumer electronics and mobile devices.

Another great example is Homeplus—Tesco’s attempt to enter the South Korean grocery market. Tesco researchers found that busy South Korean workers viewed shopping as a chore to be done at the end of a long day. In other words, they just wanted the goods, not the in-store shopping experience. So Tesco created a virtual store in subway stations where consumers could view and order groceries to be delivered straight to their home.

**Where Are You in Your Journey?**

The vast majority (roughly 70 percent) of companies are at the first two stages of their customer-centric journey. Most companies try to focus their marketing/sales/service activities on customers to extract the greatest value.

A smaller but growing number of companies also ask for feedback so they can improve products and fix customer service issues. But despite all the rhetoric about customer experience, delighting customers and innovating, it’s quite rare in practice.

Now, you may not agree with my labels, and that’s perfectly fine. Create your own labels! What’s important is the progression from an organization that targets customers to extract value from a customer base to a fully customer-centric firm that excels at delivering value based on a deep understanding of customers’ needs, wants, and desires.

Wherever you are on your customer-centric journey, keep moving. And good luck!
About the Author

Bob Thompson is an international authority on customer-centric business management who has researched and shaped leading industry trends since 1998. He is founder and CEO of CustomerThink Corporation, an independent research and publishing firm, and founder and editor-in-chief of CustomerThink.com, the world’s largest online community dedicated to helping business leaders develop and implement customer-centric business strategies.

Thompson is co-author of *The Blueprint to CRM Success* and author of the groundbreaking report “Customer Experience Management: A Winning Business Strategy for a Flat World.” He has written numerous other materials on customer-centric business and is a popular keynote speaker at conferences and seminars worldwide.

Before starting his firm, Thompson worked in the IT industry for fifteen years. He held positions at IBM, where he advised companies on the strategic use of information technology to solve business problems and gain a competitive advantage.
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