Should we Delight our Customers?
Two Perspectives

First Presenter: Nick Toman, Managing Director, CEB

Second Presenter: Roland Rust, Distinguished Professor and David Bruce Smith Chair, University of Maryland

Moderator: Mike Ahearne, C.T. Bauer Professor & Principal, University of Houston & ZS Associates
<table>
<thead>
<tr>
<th>Title</th>
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<tr>
<td>The Effortless Experience</td>
<td>25 minutes</td>
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<td>- Nick Toman</td>
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<tr>
<td>Open Your Eyes and See Delight!</td>
<td>25 minutes</td>
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<td>- Roland Rust</td>
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<td>Moderated Discussion and Q&amp;A w/ the Audience</td>
<td>25 minutes</td>
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<td>- Mike Ahearne</td>
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The Effortless Experience
Conquering the New Battleground for Customer Loyalty

Nick Toman
Managing Director, CEB
HAVE YOU SEEN THIS GIRAFFE?
THE MOMENT OF “WOW”
THREE QUESTIONS THAT GUIDED OUR RESEARCH
THREE QUESTIONS THAT GUIDED OUR RESEARCH

1.

What impact DO customer service interactions have on a customer’s future loyalty?
THREE QUESTIONS THAT GUIDED OUR RESEARCH

1. What impact DO customer service interactions have on a customer’s future loyalty?

2. What are the things customer service can do to DRIVE loyalty?
THREE QUESTIONS THAT GUIDED OUR RESEARCH

1. What impact DO customer service interactions have on a customer’s future loyalty?
2. What are the things customer service can do to DRIVE loyalty?
3. How can service improve loyalty while still REDUCING operating costs?
THE EFFORTLESS EXPERIENCE
CONQUERING THE NEW BATTLEGROUNDS FOR CUSTOMER LOYALTY

MATTHEW DIXON
BESTSELLING CO-AUTHOR OF THE CHALLENGER SALE

NICK TOMAN AND RICK DELISI
of CEB

“A business detective story, in which cherished truths are systematically investigated—and frequently debunked.”

—From the Foreword by Dan Heath, co-author of Decisive, Switch, and Made to Stick
WHAT IS LOYALTY?
WHAT IS LOYALTY?

- Repurchase
WHAT IS LOYALTY?

- Repurchase
- Share of Wallet
WHAT IS LOYALTY?

- Repurchase
- Share of Wallet
- Word of Mouth
WHAT IS LOYALTY?

The TRUEST TEST of loyalty is when something goes WRONG.

■ Repurchase
■ Share of Wallet
■ Word of Mouth
OUR STUDY IN BRIEF
OUR STUDY IN BRIEF

- 125,000+ customers
OUR STUDY IN BRIEF

- 125,000+ customers
- 5,000+ customer service reps
OUR STUDY IN BRIEF

- 125,000+ customers
- 5,000+ customer service reps
- 100+ companies
OUR STUDY IN BRIEF

- 125,000+ customers
- 5,000+ customer service reps
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3 major findings
FINDING 1: DELIGHT DOESN’T PAY
FINDING 1: DELIGHT DOESN’T PAY

More Loyal

Less Loyal

Below Customer Expectations

Meets Customer Expectations

Exceeds Customer Expectations

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FINDING 1: DELIGHT DOESN'T PAY

The Perception

Below Customer Expectations
Meets Customer Expectations
Exceeds Customer Expectations

More Loyal
Less Loyal
FINDING 1: DELIGHT DOESN’T PAY

- Less Loyal
- More Loyal

The Perception vs. The Reality

- Below Customer Expectations
- Meets Customer Expectations
- Exceeds Customer Expectations
FINDING 1: DELIGHT DOESN’T PAY

• “Delight” only happens 16% of the time
FINDING 1: DELIGHT DOESN’T PAY

- “Delight” only happens 16% of the time
- “Delight” increases operating costs 10-20%
When [companies, friends, or coworkers] expend extra effort in order to exceed promises, their effort appears likely to be overlooked.”

Gneezy & Epley

FINDING 2: SERVICE DRIVES DISLOYALTY
FINDING 2: SERVICE DRIVES DISLOYALTY

Customer Service Impact on Loyalty

More Loyal

More Disloyal

1.00x

3.97x

Source: CEB analysis.
FINDING 2: SERVICE DRIVES DISLOYALTY

Customer Service Impact on Loyalty

More Loyal

More Disloyal

1.00x

3.97x

Drivers of Disloyalty

Source: CEB analysis.
FINDING 2: SERVICE DRIVES DISLOYALTY

Customer Service Impact on Loyalty

- More Loyal: 1.00x
- More Disloyal: 3.97x

Drivers of Disloyalty:
- Repeat contacts

Source: CEB analysis.
FINDING 2: SERVICE DRIVES DISLOYALTY

Customer Service Impact on Loyalty

More Loyal

More Disloyal

Drivers of Disloyalty
- Repeat contacts
- Channel switching

Source: CEB analysis.
FINDING 2: SERVICE DRIVES DISLOYALTY

Customer Service Impact on Loyalty

More Loyal: 1.00x

More Disloyal: 3.97x

Drivers of Disloyalty:
- Repeat contacts
- Channel switching
- Transfers

Source: CEB analysis.
FINDING 2: SERVICE DRIVES DISLOYALTY

Customer Service Impact on Loyalty

More Loyal

More Disloyal

Drivers of Disloyalty
- Repeat contacts
- Channel switching
- Transfers
- Repeating information

Source: CEB analysis.
FINDING 2: SERVICE DRIVES DISLOYALTY

Customer Service Impact on Loyalty

More Loyal

1.00x

More Disloyal

3.97x

Drivers of Disloyalty
- Repeat contacts
- Channel switching
- Transfers
- Repeating information
- Robotic service

Source: CEB analysis.
FINDING 2: SERVICE DRIVES DISLOYALTY

Customer Service Impact on Loyalty

- More Loyal: 1.00x
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Drivers of Disloyalty
- Repeat contacts
- Channel switching
- Transfers
- Repeating information
- Robotic service
- Policies and processes customers have to endure

Source: CEB analysis.
FINDING 2: SERVICE DRIVES DISLOYALTY

Customer Service Impact on Loyalty

More Loyal

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Drivers of Disloyalty
- Repeat contacts
- Channel switching
- Transfers
- Repeating information
- Robotic service
- Policies and processes customers have to endure
- “Hassle factor”

Source: CEB analysis.
FINDING 3: MITIGATE DISLOYALTY BY REDUCING EFFORT

Customer Service Impact on Loyalty

More Loyal

More Disloyal

Drivers of Disloyalty
- Repeat contacts
- Channel switching
- Transfers
- Repeating information
- Robotic service
- Policies and processes customers have to endure
- “Hassle factor”

Source: CEB analysis.
THE BUSINESS CASE FOR
THE EFFORTLESS EXPERIENCE
THE BUSINESS CASE FOR THE EFFORTLESS EXPERIENCE

Repurchase
THE BUSINESS CASE FOR THE EFFORTLESS EXPERIENCE

Source: CEB analysis.
THE BUSINESS CASE FOR THE EFFORTLESS EXPERIENCE

- Repurchase
  - Low Effort: 94%
  - High Effort: 4%

- Increased Spend/Share of Wallet

Source: CEB analysis.
THE BUSINESS CASE FOR THE EFFORTLESS EXPERIENCE

Repurchase

- Low Effort: 94%
- High Effort: 4%

Increased Spend/Share of Wallet

- Low Effort: 88%
- High Effort: 4%

Source: CEB analysis.

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effortless-experience.com
THE BUSINESS CASE FOR THE EFFORTLESS EXPERIENCE

Repurchase
- Low Effort: 94%
- High Effort: 4%

Increased Spend/Share of Wallet
- Low Effort: 88%
- High Effort: 4%

Negative WOM

Source: CEB analysis.
THE BUSINESS CASE FOR THE EFFORTLESS EXPERIENCE

- **Repurchase**
  - Low Effort: 94%
  - High Effort: 4%

- **Increased Spend/Share of Wallet**
  - Low Effort: 88%
  - High Effort: 4%

- **Negative WOM**
  - Low Effort: 1%
  - High Effort: 81%

Source: CEB analysis.
THE BUSINESS CASE FOR THE EFFORTLESS EXPERIENCE

1%  81%
Low Effort  High Effort

88%  4%
Low Effort  High Effort

94%  4%
Repurchase

Low Effort  High Effort

Increased Spend/Share of Wallet

96%
Overall Disloyalty

Low-Effort Experience  High-Effort Experience

1%  81%
Low Effort  High Effort

Negative WOM

Source: CEB analysis.
THE FOUR PILLARS OF LOW-EFFORT SERVICE
THE FOUR PILLARS OF LOW-EFFORT SERVICE

Channel Stickiness
THE FOUR PILLARS OF LOW-EFFORT SERVICE

Channel Stickiness

Next Issue Avoidance
THE FOUR PILLARS OF LOW-EFFORT SERVICE

- Channel Stickiness
- Next Issue Avoidance
- Experience Engineering
THE FOUR PILLARS OF LOW-EFFORT SERVICE

- Channel Stickiness
- Next Issue Avoidance
- Experience Engineering
- Frontline Control
THE CUSTOMER EFFORT SCORE 2.0

<table>
<thead>
<tr>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Somewhat Disagree</th>
<th>Neither Agree Nor Disagree</th>
<th>Somewhat Agree</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
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<tbody>
<tr>
<td>The company made it easy for me to handle my issue</td>
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A great way for service functions to detect potential disloyalty...

Overall Disloyalty

- Low Effort: 9%
- High Effort: 96%

Percent of Detractors

- Low Effort: 4%
- High Effort: 67%

Source: CEB analysis.

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To get a copy of this presentation, email us at effortless@executiveboard.com

To learn more about reducing customer effort, visit us online at effortless-experience.com

@CEB_Effortless    @nick_toman

www.youtube.com/CEB

The Effortless Experience from CEB
Open Your Eyes and See Delight!

Roland T. Rust
My Background

• One of the pioneers of customer delight research, from the early 1990s
• Dozens of research articles and 8 books on customer satisfaction and service
• Extensive consulting on satisfaction & delight (e.g., AT&T, Comcast, DuPont, FedEx, IBM, Microsoft, Sony, Unilever, etc.)
My Purpose

• What is customer delight?
• Is Nick Toman right about anything?
• Is delight a good goal?
See the Light = See Delight??
The Kano Model
What Is Delight?

• Surprising Performance =>
• Arousal =>
• Pleasure =>
• DELIGHT
Measuring Delight

• 10 on a 10-point satisfaction scale?
• No, needs to be surprising!
• One approach:
  1. Worse than expected
  2. About as expected
  3. Much better than expected
Drivers of Satisfaction ≠ Drivers of Delight

• E.g., “accurate bill” => satisfaction
• “remember my wife’s name” => delight
What About that Toman Guy?

- “Stop Trying to Delight Your Customers”
  Dixon, Freeman & Toman,
  Harvard Business Review, 2010
Is Nick Toman the Grinch?
Let’s Be Nice

• Nick Toman is right about some things.
• E.g., Solving problems is important.
Prospect Theory

• Kahneman & Tversky 1979
In Other Words

- Problems hurt more than delight helps
- Fix problems first
- Delight won’t work if there are problems
- “Sorry the car burst into flames, but have a free piece of cake.”
Some More Agreement

• Satisfying customers can cost too much.
Need to Calculate ROI
Yet More Agreement

• Customer effort is important
• Convenience is key

Rust, Zeithaml & Lemon 2000
Berry, Seiders & Grewal JM 2002
Difficult Web Sites?

• Agree!

• Feature Fatigue (Rust, Thompson, Hamilton HBR 2006)

• The problem is the technical people (web site designers, engineers, etc.)
Now for the Disagreements
Customer Satisfaction Isn’t Important???

• HUGE academic literature saying that it is important, e.g.:
  • Rust & Zahorik, Journal of Retailing 1993
  • Rust, Zahorik & Keiningham, Journal of Marketing 1995
  • Fornell, Rust & Dekimpe, JMR 2010
  • Fornell et al., JM 2006
  • Anderson, Fornell & Lehmann JM 1994
  • Anderson, Fornell & Mazvancheryl JM 2004
How to Explain Low Correlation with Loyalty?

- Reichheld, HBR 2003 (to try to sell the Net Promoter Score) (NPS now widely discredited in the academic literature)

- Why? Switching costs
- Why? Comparison with competitors
But Satisfaction Not Correlated With Market Share!

• In fact, the relationship is usually negative (Rego, Morgan & Fornell JM 2013)

• Why? Marginal customers.
Satisfaction => Loyalty

• Yes, definitely (proven)
• Comparison with competitors matters
• Switching costs matter
Delight is a Waste of Money?

• Disagree!
What Good is Delight

- Rust & Oliver, “Should We Delight the Customer,” JAMS 2000
- Delighting the customer hurts by raising expectations
- BUT…competitors are hurt worse
Switch Everything to Self-Service

• Disagree!

• There is a trade-off between productivity and customer satisfaction (Rust & Huang, JM 2012, Huang & Rust, Sloan Mgmt Review 2014, Anderson, Fornell & Rust Mktg. Sci. 1997)
Optimizing Service Productivity

• There is an optimal degree of automation
• Beyond that point is less profitable
• Many bad examples (e.g., horrible phone menus)
Some Keys for Customer Delight

• Fix your problems first
• **Surprise** the customer
• Don’t spend too much
• The personal touch is the best and most inexpensive delighter
Conclusions

• Delighting the customer works
• Satisfying the customer and delighting the customer are different
• Comparison with competitors is key
MODERATED DISCUSSION AND Q&A WITH THE AUDIENCE

Moderator

Mike Ahearne
C.T. Bauer Professor & Principal
University of Houston & ZS Associates

Presenters

Nick Toman
Managing Director
CEB

Roland Rust
Distinguished Professor & David Bruce Smith Chair
University of Maryland