

Harvey Thompson



WHO
STOLE MY
CUSTOMER??

Winning Strategies for Creating
and Sustaining Customer Loyalty

Second Edition

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Customer Loyalty**

Harvey Thompson

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To Ben and Laura Thompson

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Acknowledgments

The opinions expressed in this book are the result of ten years as global leader of IBM's management consulting practice to transform firms from a traditional inside-out, product-centric focus—vulnerable to defections—to become world-class, customer-centered, and customer-preferred enterprises.

I was privileged to meet, study, and work with business thought leaders across the fields of research and development, academia, professional services, executive education, and senior client management. This provided a unique environment to develop a powerful set of business strategy approaches and build upon what was learned from our collective experiences, which spanned from the “boutique strategy” era (discussed in Chapter 2) to today's “customer co-innovation” era (covered in Chapters 10 and 11).

Moreover, this second edition of *Who Stole My Customer??* is the result of invaluable assistance by the following people:

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Thank you all!

—Harvey Thompson

About the Author

Harvey Thompson is internationally recognized as an authority on how to grow market share and loyal customers by transforming a business—from the outside in—using the external customers’ points of view.

As director and managing principal for IBM Global Services, Customer Value Management Consulting, he built a worldwide network of consultants to help Fortune 500 and Global 1000 senior executives develop an actionable, *customer-defined* vision of their company as the ideal vendor—and then implement it.

Later, as worldwide executive for IBM Business Innovation Services, Customer Loyalty and Relationship Management, his team developed and patented a suite of customer loyalty offerings to provide clients with a customer-focused strategy and an implementation roadmap.

His ground-breaking book, *The Customer-Centered Enterprise*, was released in 2000 by McGraw-Hill, and received international bestseller acclaim. *Executive Book Summaries* recognized it as one of the “best business books of the year,” and the Harvard Business School featured and recommended it on their website. The first edition of *Who Stole My Customer??* was released by Pearson-Prentice Hall in 2004. And with this second edition in 2015, his books have been published internationally in twelve editions and nine languages and appear on student reading lists for major universities worldwide.

Thompson has been cited as an expert on Customer Loyalty and Relationship Management and interviewed or quoted in such publications as *The Journal of Business Strategy*, *The Economist*, *Business Week*, *Newsweek*, *PC Week*, and *Investors Business Daily*. He served as an editorial board member for the *Journal of Financial Services Marketing*, and has been keynote at global professional conferences and lectured at executive forums such as the Advanced Business Institute, in Palisades, NY, and the International Executive Education Centers in Brussels, Belgium, and Milan, Italy.

Thompson retired as an IBM executive to pursue writing, conference speaking, client management team briefings, and private consulting. He can be reached via email at hthompson@customer-centered-ent.com.

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Preface

The purpose of this book is to introduce powerful new approaches and frameworks to attract and retain your customers in an era of spiraling customer defection. Managing customer relationships to improve retention and loyalty is now a top, critical issue for CEOs globally.

This book is for you if:

- You are a manager or executive...or want to become one.
- You own a business...or want to own one.
- You are a future business leader...or studying to become one.

If you are any of these, this book is critical to your success because you have been relentlessly conditioned by your prior experience and studies to look at business from one perspective: inside-out from the company's viewpoint.

Business management has traditionally followed a simple, fundamental framework commonly referred to as Management 101: A) Set your business goals and objectives; B) Develop plans and programs to attain them; and C) Establish measurements and controls to track and ensure progress. Simply put: Where do *we* want to be? How do *we* get there? How do *we* know *we* are on track?

The problem with that approach—and the *we, we, we* mindset—is the absence of the single most critical element in the success of a business: the customer.

That Management 101 generic framework worked for centuries in a world characterized by customers with limited knowledge or access to alternatives beyond local and regional markets. Demand typically exceeded supply and the suppliers were in the power position. Hence: Where do *we* want to be? How do *we* get there? How do *we* measure and control our progress?

Today, with instant connection to knowledge and global access to competitive products and services, the customer is in control. And customers are leaving their former suppliers in a torrent. Here is where

your inside-out point of view and management disciplines continue to be relevant, but will come up short. Because good intentions to attract and retain customers—without the capability to also obtain and drive an outside-in customer viewpoint into your business infrastructure (and culture) —will consistently unravel your best efforts.

This book compels you to analyze your business from the point of view of your customer. Or, if you are a business student and future business leader, it will provide the counterpoint to 60+ classroom hours of advanced company viewpoints (with possibly only a three-hour class on marketing where the customer was featured in a course description).

To help you understand, and then adopt, the customer’s perspective, the issues in *Who Stole My Customer??* are presented from both a company viewpoint as well as that of a customer—because both views must be reconciled and aligned. Each chapter concludes with a “Take the Customer Viewpoint – Outside-In” exercise: You turn your management hat around and personally experience the chapter’s loyalty or attrition issues from an actual customer’s perspective, and then consider what must change within your own firm.

The book expands and builds upon concepts introduced in *The Customer-Centered Enterprise* (McGraw-Hill, 2000), which predicted the subsequent global shift in business strategy from product to service and the current upward spiral in customer attrition.

This second edition of *Who Stole My Customer??* addresses how to stem that tide of customer attrition, as businesses struggle to balance global financial crises recovery with dynamically changing customer expectations.

The book shares what has been learned from customer-loyalty research, development, and innovation to build world-class customer-focused (and customer-preferred) organizations around the world. You may not require the same level of detail as other readers with different organizational roles; however, you will share a common need for practical, actionable information to stimulate thinking and enable your decision-making. A real effort has been made to keep this book at such a level—potentially valuable to all—and not a textbook of task-level minutiae.

Technological offerings clog the Internet with customer relationship “silver bullet” applications that seem to be outdated and replaced every twelve to eighteen months. We instead focus on customer strategy components that address why a firm’s attempts at customer loyalty initiatives are either successful or most often fail. We concentrate on how to identify what drives customer behavior and how to avoid the missteps most firms make when trying to fulfill them.

When their customers leave, managers and business owners want to know: “Who *stole* my customer??” How? What can we do to keep customers and attract new ones? How can we become customer centric and customer preferred? What are the alternatives to temporarily buying customers with reward points or discounts from so-called (and easy to copy) “loyalty cards”? What is new, world-class, leading-edge thinking on the topic? Where is the greatest leverage to improve our business? Which customer-oriented investments offer the best return? What are the typical elements and major issues involved? What are the possible benefits? What are the impacts of not doing it? What pitfalls and exposures are already known by those who have a successful customer-centric business strategy?

I’ll share some answers with you as if you are a client who is considering investing in a world-class customer strategy to expand and *keep* your market share. This book is intended to inform and interest you to go to the next steps—to move far beyond “Have a nice day” platitudes and develop a customer-defined, outside-in vision of your business, plus the capabilities and infrastructure to make it a reality.

Then let your competitors ask, “***Who stole my customers??***” I wish you good reading.

—Harvey Thompson
Your Customer Advocate

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Introduction

You are a customer.

You are considering your next purchase—perhaps to replace an old, well-used product, or possibly to buy a new item or service that you have never owned.

Think about it. What will drive your decision regarding where you will conduct this business? What determines whether you do business with one provider of a product versus another? And later, what determines whether you will return and purchase again from that firm or move on to a new source?

In today's environment, one firm's products pretty much resemble those of other potential vendors. When a company does introduce a truly unique product idea, that innovation is soon replicated and available from virtually everyone else in the industry. Competitors also quickly copy improvements to existing product lines. So considering the similarities, the product itself is often not the reason you select one provider over another.

Consider how you make your buying decisions and how you determine where to conduct your business. Is it strictly based on the product, or do other factors come into play? For example, if you are already a customer and you are familiar with a firm's products and services, to what extent can the customer experiences you have had (with shopping, buying, payment, delivery, and post-sale service) influence whether you will return to purchase there again or else defect and buy elsewhere?

If you learned that a firm you had no experience with provides great benefit and value during such customer interactions, might you drive across town to purchase from that company, even though similar products are available nearby? Do you already do that today? Is your favorite source for clothes the nearest haberdashery, or do you travel past close by stores and shopping areas to get to a preferred retailer? Is your current bank the one most conveniently located to you? Is your car serviced at the closest professional mechanic or filling station, or at the absolutely lowest-cost provider? Why do you drive past one potential provider to get to another?

Also think about the access options and flexibility the firm provides to you (digital mobile, live online service or sales representatives, user-friendly website, email contact, telephone, storefront, kiosk, and so on).

In the past, consumers had to walk or drive to obtain most products and services. Still, they often did not select providers simply on the basis of proximity or a prior relationship. Today location and a prior relationship can be even less important when selecting a vendor. With overnight or express delivery service, consumers can conduct a global search for the best possible source via the Internet and often can switch their customer account to a new provider with a mere mouse click. So if you are like most consumers, your *customer experiences*, such as convenience and flexibility, during touchpoint interactions are increasingly gaining prominence as motivators to remain a customer or to leave. Bad experiences during interactions with a current vendor might easily drive you away, even though you are satisfied with the company's products, because alternative sources are literally a click away. On the other hand, extraordinary, positive experiences during touchpoint interactions might give you an incentive to stay with a vendor—or, if they are offered elsewhere, could attract or *steal* you away.

So what if *you* actually designed such powerful customer experiences to provide the things you most value during those moments? What if a vendor identified you as a highly desired customer (perhaps based on your financial, psychological, or other characteristics) and let *you* design *its* business to provide the greatest possible value to you? What if, even though the company's products and prices were similar to others, your interactions with that vendor during your *shop, buy, pay, receive*, and

post-sale service experiences were completely designed into the business, outside in, from *your* perspective and your access (the company's distribution) channel preferences?

Can you envision being attracted away from your current bank, automobile dealer, airline, hotel chain, financial services firm, insurance company, retail store, or so on because someone with a relatively equal product knew you, valued you, and did things *your way*? Can you envision how you could receive value that would differentiate a firm if its sales processes were designed to make your own purchase process fast, easy, and low cost? Could a firm's knowledge of you and your long-running relationship with it enable a more personal, high-value, consultative sales or service relationship that would make it your preferred provider?

Can you envision how you could later receive extraordinary benefit during interactions with that company's service processes if those were also designed from your perspective to make everything easy, quick, and, ideally, convenient for you?

What if that company's invoicing or billing statements were also designed from your viewpoint, to make it easy to reconcile them, pay them, and keep your records? Might you prefer doing business with that company over others? What about a telephone company bill that you could readily understand, have confidence in, and conveniently pay? If its products were similar, would such a process or service help to win your business?

If you are like the hundreds of customers I have met and worked with in creative, *visioneering* exercises, then your answer to each of the above is, "Yes."

So if you already know all that to be true when *you* are a customer, why isn't *your* business already doing that with *your* own customers? You are likely both a customer and a provider of goods and services! That's true of most managers, but somehow, when they change hats and assume their provider or vendor roles, managers lose sight of the customer perspective. Instead of designing and measuring business processes and customer touchpoints from their customers' viewpoints (outside in), managers shed their customer skins, don their management hats, and

adopt the perspective of the firm (inside out). Touchpoint interactions and supporting infrastructure are designed from the company's point of view to optimize internal processes, based on an understanding of what might have minimally satisfied customers in the *past*—possibly back when the firm was more successful. Ironically, when managers are in their role as customers, a firm that allowed them to define and design high-value touchpoint interactions would attract those same managers, yet they do not do the same with their own customers and are thus losing them at an accelerating rate. Sound familiar? It should, because it occurs in all industries and is a major obstacle for even the most well-intentioned management teams.

We use several techniques in subsequent chapters to overcome this “inside-out” business orientation and help you more effectively fulfill your role as a business leader. It will not be enough to simply cite to you innovative new ways to become customer centric and retain loyal customers. You have already read business books and articles on such topics, but always with your inside-out filters on. We must overcome the company-first viewpoint that has been ingrained in you from the time you attended your first business course, management seminar, or company meeting. You have been programmed with certain common, business-driven approaches to develop your mission, vision, strategies, plans, and programs. The problem is, those simply *include* the customer instead of being actually *developed, designed, and driven* by customers. And when you do read a book that promotes how to take more of an outside-in customer viewpoint, you read that material while mentally and emotionally still wearing your company hat. You do not move past mere intellectualization of the material to viscerally experience the truth of it so that it becomes a part of your actual system of beliefs.

To truly understand and appreciate such customer-centric materials, you must take off your current industry or company management hat and consider the concepts from fresh perspectives. In the effort to contrast a company viewpoint versus a customer viewpoint, the examples in this book often look at automobile companies or banks because *you* are a customer of those, and you can visualize and internalize how to improve them from an actual *customer's point of view*. The customer-centered concepts we cover are generic and do not apply to only one

industry, so once you consider and internalize them via a bank or automotive example, you can later apply them to your own industry and firm.

For instance, within the examples, we examine the situations from the point-of-view of the executives in those firms so that you can see how *they* see *you* as a customer. Then we put you in the role of the customer so you can shed your management hat (and the inside-out business viewpoint that accompanies it) as you consider the innovative customer-centric approaches being discussed.

We begin in Part I, “The Case for Action: Customer Defection,” with an introduction to an automobile company, and the case for action to become more customer-centric and both attract and keep your customers.

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When Prior Strengths Become Your Weaknesses

I once stood in a boardroom and spoke with the top-tier executives of a major automobile manufacturer famous for its brand and renowned for engineering and product excellence. The brand had enjoyed a loyal following for decades, but it was now losing market share: in the United States, customer defection was nearly 70 percent. In other words, for every ten U.S. customers who bought the company's cars, approximately seven would defect—only three would return to buy again.

To understand this trend, my consulting team had conducted extensive interviews at company headquarters, held workshops with dealers (the distribution channel), and set up focus groups with current and former customers. We had identified the customers' issues and put together a customer-defined vision of the firm as an ideal future provider of automotive products and services. It was time for our mid-engagement client review.

We knew what the problem was. The customers had told us. Now I had a problem of my own: how to tell the auto executives that *they* were the problem.

The company had become its own worst enemy. Its strength and prior success as a product-focused firm had become its greatest weakness and exposure. The world had changed, but the company had not. Great success often comes with at least two negative results: arrogance and inertia. When a marketplace changes, as it ultimately will, arrogance and inertia can prevent a successful organization of good managers from being able to sense those changes and respond by also changing. The very attributes that once contributed to the company's rise to greatness, such

as pride in its own product and service knowledge, can subsequently doom that company to wither and fail from not listening to their (less knowledgeable, nonexpert) customers.

I began my executive presentation with a story about another major corporation, IBM, because my career had spanned that successful company's prior fall and rise. Thinking that the executives would benefit and learn from the missteps of others, I described our similar experiences with great accomplishments followed by a period of customer defection and failure. During the early years of information technology, the computer pioneer had enjoyed remarkable growth based upon product excellence and, arguably, the world's greatest marketing and sales team of the era. The firm leveraged its enormous research and development capabilities to invent new products and technological advances; it then educated its customers on why they needed the company's products and how to use them. Then IBM serviced and maintained those leading-edge products for their less skilled customers.

Few companies during that era had the infrastructure, knowledge, or capabilities to analyze their own data processing needs or to install, operate, and service those complex offerings. Customers became increasingly dependent upon "Big Blue" with each round of product innovation. IBM's core competencies were to develop and then push new products to a dependent, if not passive, and trusting marketplace.

However, during the decade before 2000, competition increased. New vendors introduced appealing competencies that included an ability to listen to customers and give them what they wanted. While these new entrants focused on the customer, listened, and rapidly responded with offerings, IBM continued its internal, expert-driven focus on product and service development. Arrogance and inertia, bred from years of prior success, prevented IBM from deviating from the established processes that had yielded positive results for decades. The company continued to rely on the historic functional and competitive strengths of research and development, manufacturing, and marketing that were intended to invent new things and then sell them—not to listen and then flexibly respond. As a result, when the market changed in the early 1990s, IBM missed that transition. Customers had developed their own internal support staffs, and many were no longer dependent on a vendor

to tell them what they needed or how to use it. Furthermore, this new generation of customers had developed strong opinions and demanded more user-friendly and *customer-defined* products and services. For example, customers had come to expect that hardware and applications would work the way they themselves worked—not the other way around. By the mid-1990s, IBM market share had plunged and stock prices had fallen from \$110 to \$37 per share. The firm’s historic strengths and internal self-reliance as *the expert* had become its Achilles’ heel—and it almost ruined the company.

I completed the analogy for the auto executives with how IBM—as a matter of survival—had learned from its mistakes and developed a core business competency to systematically monitor a changing marketplace and provide what customers want (not what company “experts” think they need). The benefits had been enormous for both our customers and stockholders, who had enjoyed multiple subsequent stock splits. I concluded that for the rest of the agenda we would share what their automobile customers had told my team—as well as how to make listening and responding to customers a firm’s core business competency. This was intended to be a way of saying to my client, “Don’t be arrogant (like IBM had been)—listen to your customer.”

The room was deathly quiet, and the executives looked at me as if I were speaking a language from another planet. Apparently, the only point with which they agreed was regarding IBM’s arrogance—particularly mine. During a quick break called by the CEO, a member of his staff confided to me that the culture in this firm was that it had little to learn from outsiders—and the executives especially did not trust or listen to consultants. Furthermore, they knew their own business better than anyone; that’s why the company had been so successful all those years.

Hmmm, the first deadly sin of a successful firm: *arrogance*. The second sin: *resistance to change*.

Our meeting resumed, and over the next hour, I learned that the comment about the firm not listening also applied to its customers’ views. The executives had little regard for direct customer feedback when it conflicted with their own views or prior experiences. When we cited desires, issues, or concerns customers raised, the executives often countered with their own personal beliefs and discredited or belittled what

their customers had said. As an example, when told that in their deteriorating U.S. marketplace American consumers visiting an automobile showroom tended to immediately examine a car's coffee-cup holders, a top European auto exec retorted, "We build cars for driving, not for drinking coffee." Vigorous head nods around the board table supported the correctness of his (internal) view. Even so, the chart on the wall behind me, from one of the auto industry's most respected consumer research firms, continued to scream that seven out of ten of this firm's U.S. customers would not return.

Silly customers. We know best.

So what was the problem? Who had *stolen* the company's customers? (And why did they leave?)

Pogo knew: *We have met the enemy, and he is us.*

EXERCISE

Take the Customer's Viewpoint — Outside-In

What about your view—when you are a customer?

What attracts you? What later can move you to change vendors?

Do those things stay constant, or do they change over time as your needs, preferences, and experiences change? Might a vendor also need to change in order to retain you?

For example, think of times when a company's strengths—and what made it attractive to you—were that it had expertise that you did not. Can you remember feeling insecure or anxious because you lacked a critical set of knowledge, skills, or capabilities? Do you remember the value you placed on a relationship with someone who did have those skills and stepped in to fill the void?

Think about the relief and value propositions that such expert providers of products and services brought to you when you were an inexperienced customer. Their successes enabled your success, and the better they became as the experts, the more you benefited.

However, when you later developed your own expertise and self-reliance, did your needs change regarding how you subsequently acquired and used those products or services?

At that point, did you still so highly value someone whose value proposition persisted to be that they would tell you what you need or do it for you?

Do you have opinions, likes, and dislikes today regarding different vendors that you did not always have?

Can you see how a marketplace of people like yourself might have requirements or preferences that also change over time?

EXERCISE

Can you also see how experienced, knowledgeable customers might want to give input to their providers and add their own dynamic needs, wants, and requirements to products, services, and channel design specs?

As your needs and preferences change over time, do you think you could be attracted away by a new vendor who would team with you and utilize *your* user expertise as input into the design of their products, services, and touchpoints? Could you be *stolen* away by such a value proposition?

***What* about your own customers—if you are a business manager, executive, or owner?**

- What strengths originally made your firm a success in their eyes?
- How are you evolving your core competencies to stay aligned with a changing marketplace? How does your company listen to customers and make them the relentless focal point for the design of products, services, and customer-facing processes? How does your company sense the changes in the marketplace and what your customers value, and then respond to those considerations?
- How does your firm anticipate and prepare for those in advance?
- When *you* are a customer, you know what moves you today to change vendors. If you were a customer of your firm, could you be easily *stolen* away?
- What if you were your competitor? What might you do to attract customers?
- If you aren't doing those things today, who is the enemy responsible for your lost customers tomorrow?

EXERCISE

What about your studies—if you are a future business leader, or a student at the MBA or Executive MBA level?

- What business models or concepts that are traditionally admired or taught in classes and considered historical strengths might be rapidly on their way to becoming weaknesses tomorrow?
- How do your own experiences as a customer influence the choice of individual firms or business models that you find appealing as role models during your studies?
- Do those experiences also influence your choices or preferences for a future employer? How likely are you to face the “we are the experts” mindset of an established employer?
- How might you overcome that and provide differentiating value to a successful business?
- As a new hire or newly promoted manager, how might you bring unexpected value to a struggling business that has critical customer attrition and market share issues?

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