How to achieve true customer-led growth

Closing the delivery gap

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Most companies assume they're consistently giving customers what they want. Usually, they're kidding themselves. When we recently surveyed 362 firms, we found that 80% believed they delivered a "superior experience" to their customers. But when we then asked customers about their own perceptions, we heard a very different story. They said that only 8% of companies were really delivering. (See figure 1.)

Why does this "delivery gap" exist at so many companies? It's not because business leaders fail to recognize the importance of their customers. In fact, more than 95% of management teams we've surveyed claim to be customer focused. We've found that the delivery gap exists for two fundamental reasons.

Figure 1: Identifying the delivery gap

Percentage of companies
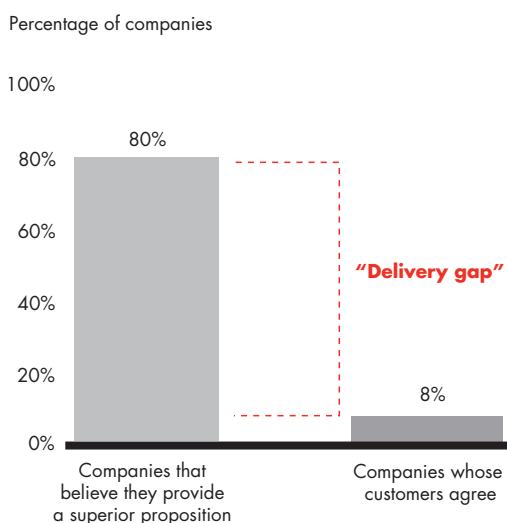
Source: Bain Customer-Led Growth diagnostic questionnaire, n = 362;
Satmetrix Net Promoter database, n = 375

The first is a basic paradox in business: Most growth initiatives damage the most important source of sustainable growth—a loyal, profitable customer franchise. When a business tries to increase its revenue per customer, it tends to do things, like raising transaction fees, that end up alienating its core group of buyers. It compounds the problem when it tries to expand its customer base, as pursuing new customers distracts management from serving the all-important core.

The financial software powerhouse Intuit briefly succumbed to this paradox, despite its long record of excellence in customer service. In 2001, its TurboTax program held an enviable 70% of the retail market for tax-preparation software and 83% of the online market. But then Intuit began doing little things, such as boosting the price on tech-support calls and limiting software licenses to one computer, which annoyed its customers. Retail growth flattened. As more web-based tax-preparation sites sprang up, online buyers started jumping ship. Their loyalty had grown paper-thin. In 2003, TurboTax's online market share declined precipitously.

The second reason the delivery gap exists is that good relationships are hard to build. It's extremely difficult to understand what customers really want, keep the promises you make to them and maintain the right dialogue to ensure that you adjust your propositions according to customers' changing or increasing needs. And it's only going to get harder. (For further reading, see "The Consumer of 2020," by James Allen and Darrell Rigby, *Global Agenda*, January 2005.)

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*– A.G. Lafley,
CEO, Procter & Gamble*

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In our research, we've found that

• only 50% of management teams tailor their products and services to the needs of customers;

• only 30% organize the functions of their company to deliver superior customer experiences;

• only 30% maintain effective customer feedback loops.

Even initiatives to "better understand" customers typically backfire. A company can get so engrossed in collecting and sifting through data on patterns of use, retention, purchases and other transactions that buyers become numbers rather than people, segments rather than individuals. Companies become deaf to the real voices of real customers. Procter & Gamble's CEO, A.G. Lafley, best captured the importance of getting beyond spreadsheets when he said: "I am a broken record when it comes to saying, 'We have to focus on the consumer.'...I don't think the answers are just in the numbers. You have to get out and look." [1]

Closing the gap

So how can you close the delivery gap? The best way to start is by taking a hard look at those 8% of companies that customers say really *achieve* a superior experience. What sets the Achievers apart from the mere Believers? We found, in analyzing the Achievers' practices, that they share a simple but powerful goal: They focus, above all else, on treating their most profitable customers in ways that ensure that they come back for more *and* recommend the company's products and services to their friends. These companies know exactly what their customer issues are at all times. (See sidebar, "How to Pinpoint Your Problem," opposite page.) It's by turning profitable buyers into loyal advocates—and

then working unceasingly to keep those advocates happy—that the Achievers not only avoid the delivery gap but also achieve superior revenue and profit growth over the long haul.

In pursuing their distinctive goal, the Achievers take an unusually broad view of the delivery of value to customers. Unlike most companies, which instinctively turn to product or service design to improve customer satisfaction, the Achievers pursue three imperatives simultaneously. We call them the "Three D's": They *design* the right propositions for the right customers. They *deliver* those propositions at the lowest possible system cost. And they *develop* the institutional capabilities required to do it again and again. Each of these Three D's draws on and reinforces the others. Together, they transform the company into one that is continually led and informed by the voices of its customers. (See figure 3, page 4.)

Designing the right propositions

Most large companies are adept at traditional market research, segmentation and product design. But many fail to connect the dots between what they learn about customers and what they offer to customers. They lack the processes to ensure that customer research includes real customer interaction—focus groups, interviews and observation of purchasing and other behaviors—that actually leads to insight on the essential question "What do our most important customers really want?" They fail to convert the insights they glean into truly differentiated propositions, which take into account the product features, the brand and a customer's experience with the company. Finally, they fail to make sure the organization understands who each proposition is for and how it will be delivered to them.

[1] Luisa Krall, "A Fresh Face: A.G. Lafley Is Giving Procter & Gamble a Radical Makeover," *Forbes*, July 8, 2002.
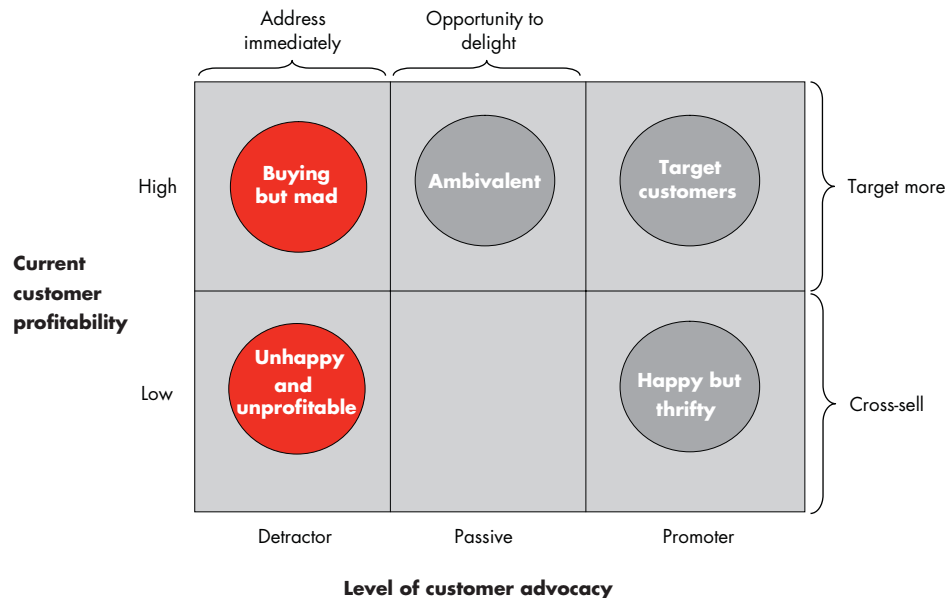
How to pinpoint your problem

Where are your most profitable customers and how can you deepen your relationship with them? Where are your problem customers? The chart shows the level of customer advocacy as measured by Net Promoter Score™ on the horizontal axis, and the level of customer profitability on the vertical. Let's consider the key boxes:

- Beginning in the upper right, this group of customers is a company's natural design target, its core, the segment that should be the prime focus of the Three D's described in this brief. You want to keep them, find more like them and explore what additional products or services they need. They are your prime source of new innovation, so listen to them.

- In the upper left box are the "false profits," customers who are "buying but mad"— they are profitable right now but in fact are sticking around only because they have no good alternative. You must address this group urgently, either by moving them to the right set of products or by fixing delivery issues. They are turning the market against you.

- In the lower left are the "unhappy and unprofitable"—the buyers who are not a natural fit with the company and who are not happy anyway. Helping them migrate to other providers makes sense.

We have found companies routinely surprised by which customers are high-profit promoters, how much potential for cross-sell exists among low-profit promoters and how many detractors lurk in their portfolio.
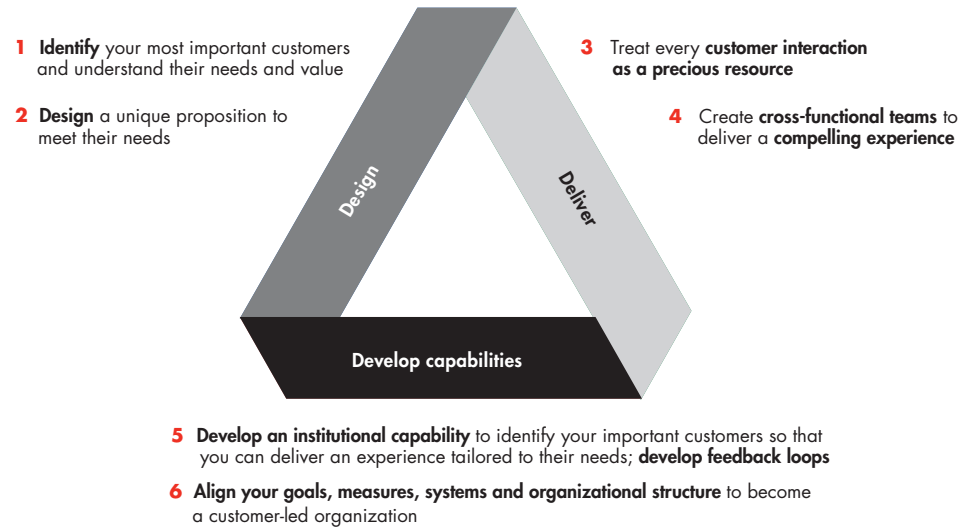
Figure 2: Where are your customers on this relationship matrix? What actions should you take?

Figure 3: Six actions you can take to deliver the Three D's

1 Identify your most important customers and understand their needs and value

2 Design a unique proposition to meet their needs

3 Treat every **customer interaction as a precious resource**

4 Create **cross-functional teams** to deliver a **compelling experience**

Design

Deliver

Develop capabilities

5 Develop an institutional capability to identify your important customers so that you can deliver an experience tailored to their needs; **develop feedback loops**

6 Align your goals, measures, systems and organizational structure to become a customer-led organization

Vodafone offers a good example of a successful approach to design. The UK-based mobile phone company grew rapidly through acquisitions in the 1990s, becoming one of the leading mobile providers in the world. To ensure that its offerings could be effectively delivered to target customers in any country, it stopped categorizing its customers simply according to where they live, as most cellular providers do. Instead, it divided its immense marketplace into just a few, high-priority global segments: international business travelers; "young, active, fun" users; occasional users; and a handful of others.

It then developed targeted, experience-focused offerings. The "young, active, fun" group, for instance, was offered Vodafone Live!, a state-of-the-art service that delivers everything from games and popular-song ringtones to news, sports and information. Occasional users were offered Vodafone Simply, which provides, according to the company's annual report, an "uncomplicated and straight-forward mobile experience." Such clearly delineated service platforms

allow everyone in the organization to understand the strategic priorities and focus on innovations that will better serve the segments. All the platforms create advocates, but they do so in very different ways. Moreover, the whole company knows who these customers are—ask anyone from Vodafone who is a "young, active, fun" user and he or she can describe that user's needs and how Vodafone can support them.

In designing propositions for specific segments, the Achievers focus on the entire customer experience. They recognize that customers interact with different parts of the organization across a number of touchpoints, including purchase, service and support, upgrades, billing and so on. A company can't turn its customers into satisfied, loyal advocates unless it takes their experiences at all these touchpoints into account. Design is thus closely tied to delivery from the very beginning. Planning focuses not only on the value propositions themselves but also on all the steps that will be required to deliver the propositions to the appropriate segments.

Delivering propositions to the customer

When customers turn against companies, the fault lies as often in the delivery of offerings as in their design. Firms fail to realize that propositions presented in the boardroom too rarely are delivered to customers. They forget that the promises you keep, not the ones you make, determine growth. Worse, while organizations may understand that they are accountable for the full customer experience, they often fail to recognize that the frontline employees who deliver it may be the least respected and empowered group in the company. As one frustrated call center manager reported to us: "As long as we are treated as second-class citizens in charge of protecting management from 'pesky customers,' our company will fail to keep our promises."

To ensure effective delivery, the Achievers typically adopt two practices. The first is attitudinal. The Achievers treat every customer interaction as a precious resource. They understand that while data mining and CRM systems can help companies assess what customers might be thinking, the ultimate test of any company's delivery lies in what customers tell others. The best companies find ways to listen to the real voices of customers every day. The second practice is organizational. They create cross-functional teams—involving employees from marketing to supply chain management—and motivate them to deliver the targeted value propositions in a coordinated, flawless manner across the entire customer experience. They recognize that customers don't really care which function in a company responds to their needs or how cost-effective it is— they just want promises kept.

One company that's particularly adept at listening to its customers and delivering what they want is Superquinn, the Irish grocery chain. Founder Feargal Quinn walks each of his stores' aisles every month, talking to shoppers. Twice monthly, he invites 12 customers to join him for a two-hour roundtable. He asks them about service levels, pricing, cleanliness, product quality, the new pastry line, reactions to displays, advertising promotions and so on. He also probes to find out what items they still buy from his competitors and why. Distributing notes the next morning, Quinn uses the learnings to evaluate store managers and to constantly fine-tune the delivery of the company's value propositions.

As an example, Quinn learned that an executive he had hired from a larger grocery chain was inadvertently damaging customers' shopping experience in his zeal to cut costs. Stunned that Superquinn's promise of "fresh bread baked daily" meant the grocer gave to charity tens of thousands of loaves of leftover bread each evening, the executive ordered that bread baked after 3 p.m. could be sold until 3 p.m. the next day—technically within a 24-hour day. Sales plummeted. "Customers told us the smell of freshly baked bread was one of the reasons they came to the store," said Quinn. Rescinding the efficiency policy, Quinn had bakeries bake new bread every four hours, which increased waste 30% but lifted bakery sales 35% and profit 10%.

Superquinn's experience shows that the most well-intentioned operational improvements can have unintended consequences for customers. The people staffing the front lines need to truly understand and stand up for what customers value if a company is going to deliver on its propositions. It also reveals the importance of customer research—in

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– Call center manager at leading telco

this case, interviews—in helping companies ensure their delivery continues to meet the needs of the target segments. But traditional metrics, focused on the performance of individual functions, aren't enough; measures have to be crafted to inspire and sustain the cross-functional collaboration that lies at the heart of effective delivery of the customer experience. (For further reading, see "Motivating Through Metrics," by Frederick F. Reichheld and Paul Rogers, *Harvard Business Review*, September 2005.)

This is tricky. We know that the best measures are simple and easily understood, but achieving a balance between pleasing customers and running operations efficiently is complex. In our work, we've identified a trend that we've come to call the "1/3–1/3–1/3" rule. About a third of company measures of operational effectiveness have no negative consequences for the customers and may even lead to revenue opportunities. For example, a bank whose retention measures find that new customers are most likely to defect in the first month might create a goal of phoning each new customer within one week of opening a checking account. Another third of metrics at any company typically lead to actions that harm the customer experience, and the decline in revenues overwhelms any cost benefit. In the UK, for example, a cable company at one point rewarded its service technicians for calls completed in a day. Because of this, when service reps realized a customer had a problem that would take hours to solve, they'd leave without fixing it, leaving the customer frustrated and stranded. A final third of operating measures require a lot of debate between functions to understand whether they can be applied without tipping the balance between costs and customers.

Informal measures are also important—customers, after all, don't speak in numbers. Superquinn awards shoppers "goof points" for pointing out problems such as an out-of-stock item, a dirty floor or a checkout line longer than three people. The goof points, which provide discounts off future purchases, have proved a good way to get customers talking about their experience.

Developing the capabilities to do it again and again

Finally, Achievers recognize that understanding what their customers really want and delivering it to them is not a discrete exercise—it's fundamental to the way they do business each and every day. The leaders of these companies recognize therefore that in addition to designing and delivering the right propositions, they must also develop the capabilities to do it again and again. To do that, they invest heavily to build processes to maintain a real dialogue with their most important customers. That doesn't mean collecting mounds of data—which can be blinding. Rather, it's about gaining real customer insight and timely feedback.

The Achievers have established a number of capabilities that foster ongoing, systematic improvement. They maintain formal feedback loops, for example, to stay ahead of shifts in customer needs and attitudes. SAS Institute, the North Carolina–based software company, creates a "SASware Ballot" every year, giving customers a chance to vote on a list of potential software improvements.

At eBay employees known as "pinks" monitor the company's message boards, quickly learning which issues, complaints and concerns may need attention. American Express calls all customers who don't quickly activate their new cards to find out if they're having problems.

Having decided what and how to deliver to their most important customers, these companies realign their goals and measures, systems and organizational structures to this mission. One of the best ways to measure whether they have succeeded is by tracking a company's Net Promoter Score, calculated as the percentage of customers who would recommend your company (the promoters) minus the percentage that would urge friends to stay away (the detractors). Because such a simple measure will be understandable to all parts of your business, it can serve to rally and coordinate the entire organization—to focus everyone on designing the right customer experiences and delivering them flawlessly.

Creating repeatable processes is not easy and often requires major investments in IT, training and change management programs, and a tough examination of the mission, vision and values of the company. Above all it requires committed leadership, devoted to keeping the promises a company makes.

Intuit turned around TurboTax's online market-share slide by, in part, institutionalizing its ability to constantly improve its offerings. The Consumer Tax Group, which had seen the biggest share decline, created a 6,000 member "Inner Circle" of customers who

agreed to serve as a kind of ongoing, web-based focus group. They supplied basic demographic information, along with their response to the all-important question "How likely are you to recommend TurboTax to friends or colleagues?" They were then asked to explain in their own words their number-one priority for enhancing service in any aspect of the customer experience, including shopping, buying, installing, using and tech support. A follow-up question let them prioritize a list of 10 suggestions made by others.

The Internet software that collects these ideas allowed Intuit to better segment customers, and the company found that each group had different priorities and issues. Some wanted a new approach to tech support and customer service. Another segment ranked rebate programs as their top priority for improvement. The company probed further for details: where rebates were concerned, was it awkward proof-of-purchase requirements, slow turnaround times or the amount of the rebate that most needed attention?

Thanks to these moves, Intuit was able to redesign its core TurboTax product, deliver it to the customer more effectively than ever and maintain a mechanism for continuously developing its related capabilities. Customer advocacy among both first-time users and veterans rose dramatically, and the company regained market share in web-based channels. By systematically attacking the Three D's, it had closed the delivery gap—and regained its competitive edge.

Getting started

Achieving true customer-led growth typically requires a sustained multiyear initiative. To trigger such an initiative, CEOs need to create a sense of urgency. Companies may have burning platforms simply because they have lost sight of the key elements of focusing on their customer.

The process begins with three simple actions:

First, ask yourself the following questions.

1. What are my customers saying about me? Am I successfully delivering a consistent customer experience to my most profitable customers?

2. What is my customer issue? Do I need to fix issues with my current customer base? Or do I need to attract more of my "target customers"? (See sidebar, "How to Pinpoint Your Problem," page 3.)

Second, run a simple diagnostic with your management team.

1. What are the key customer issues my company is facing? Is my team aligned on these issues?

2. How is the company doing on product/service design? Delivery? Capability development?

Third, mobilize the team to act.

1. Begin by identifying your core business, that is, the customers and propositions where you are most differentiated and make the most money.

2. Fix any major issues relating to the customer experience within this core.

3. Once you've bolstered the core, then expand outward from it into new segments and new offerings.

One of the most effective ways to begin answering these questions is to benchmark your performance against others. For more information on the Bain Management Diagnostic, email customerledgrowth@bain.com.

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