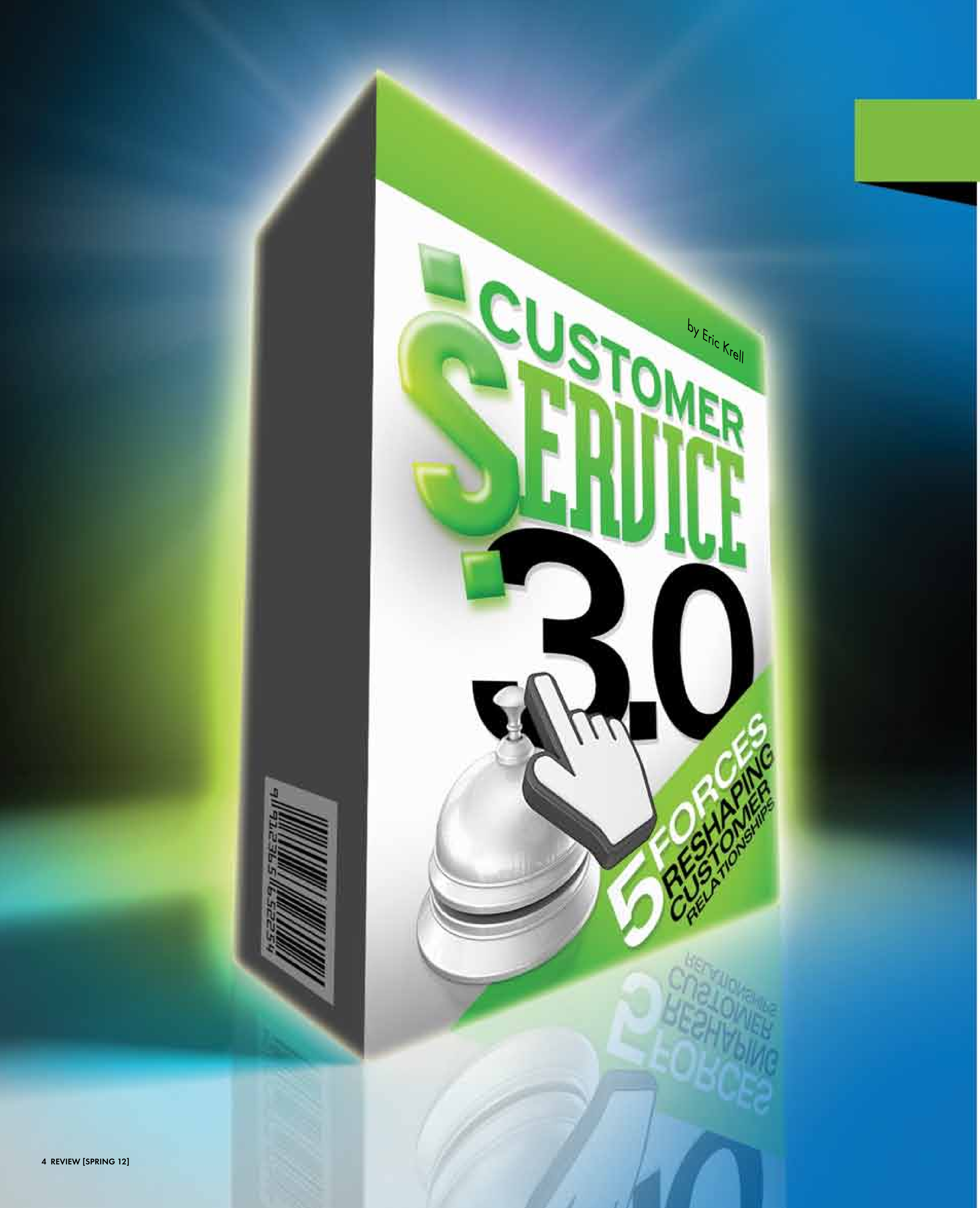

"Any change, even a change for the better, is always accompanied by drawbacks and discomforts."

British novelist Arnold Bennett used these words to describe the tumult of the early 20th century, but his observation also crystallizes the upheaval within the realm of customer service today. **Thanks to technology, transparency and a shifting power equation, customer relationships have never been more in flux or more confusing.**

"We had a pretty good idea of what customer relationship management (CRM) was 10 years ago," notes **Jeff Tanner,** associate dean of Research and Faculty Development and professor of Marketing at Baylor University's Hankamer School of Business. "I'm not sure we do right now."

Jill Puleri, vice president and global retail leader for IBM's Global Business Services agrees that customer confusion permeates the entire organization. "Every single CEO I've met with recently," she reports, "says the same thing: 'Jill, I have no idea who my customer is.'"

Tanner, Puleri and other CRM and marketing experts agree that current customers are more powerful than they have ever been before. Highly social and mobile customers can skirt traditional advertising and brand messages by canvassing their personal and, in many cases anonymous, social networks; conduct immediate price comparisons with laser-like accuracy; and quickly and broadly convey their pleasure and displeasure with brands and businesses.

"People know more about what's going on in the marketplace than ever before, so [customer engagements] can sometimes be an almost dangerous interaction," notes Chris Pullig, department chair and associate professor of Marketing at Baylor University's Hankamer School of Business. "The new customer dynamic, driven by new technology and social media, presents a significant risk as well as a great opportunity."

Current and future business leaders who are intent on harvesting these opportunities can start by understanding some of the most compelling and disruptive forces influencing 21st century customer engagement.

Force 1 Customers Trump Wal-Mart

Just a few years ago, Wal-Mart figured as perhaps the most powerful force in business – not only in retail, but also in the way that its business model and influence with suppliers affected customer behavior and expectations.

By dint of its massive size, Wal-Mart could force suppliers to lower their prices (or face losing a prized customer), and the giant retailer relayed these savings to customers. **Today, consumers as well as business-to-business customers no longer need a market behemoth to help them find the lowest price; they can do the same with the click of a mouse button or a cellphone camera connected to a barcode-scanning/price-comparison app.**

Three years ago, IBM retail consultants realized that their annual survey of global retailers was not producing sufficiently comprehensive research and insights. So, the consultants launched an equally ambitious annual survey of consumers "because the power has changed," Puleri explains. "Over time, the power has shifted from the manufacturer to the retailer and now it's in the hands of the consumer. Everything is exposed thanks to the Internet, mobility and social media."

The firm's 2011 consumer survey finds that 80 percent of customers rely on technology when they shop, and one-third of these respondents use three or more different types of technologies (e.g., Internet, mobile devices, social media) to support their decisions concerning purchases.

> "You or I can order a product and get it one day later. Amazon has created so much convenience, and that's what traditional retailers are up against."

Force 2 Amazonian Expectations

Customers are not the only force trumping Wal-Mart; Amazon.com has reset customer service expectations thanks to the impressive returns on its technology investments. It may be difficult to recall today, but the Seattle-based online retail giant was routinely bashed for its failure to post profits during its early years. Yet, CEO Jeff Bezos insisted back then that the company's significant investment in logistics and distribution infrastructure would one day justify the company's inflated valuation.

Today, those early valuations appear too low. Amazon has thrived as a result of its logistics and fulfillment capabilities as well as its cutting-edge technology.

"A large segment of consumers have been exposed to the Amazon experience," notes Brant Barton, co-founder and chief innovation officer of BazaarVoice, an Austin-based software-as-a-service firm that helps companies transform social media into social commerce through its online ratings, reviews and other solutions. "You or I can order a product and get it one day later. Amazon has created so much convenience, and that's what traditional retailers are up against."

That convenience includes enabling Amazon customers to learn about products from each other via ratings and reviews. B2B companies face similarly high expectations from their customers, thanks in part to Amazon.

"We assume that social media channels are a primary source of influence for decision-makers, whether they are a C-level executive or a consumer," reports Duane Shulz, vice president of social marketing for Xerox.

Force 3 Customization and Personalization

Customers, more so than companies, determine the value of a product or service. Today, customers assign that value based in large part on the degree to which they can customize and personalize those offerings, notes Christopher Blocker, assistant professor of Marketing at Baylor's Hankamer School of Business.

"The value that someone gains from the iPhone does not have much to do with the hardware," Blocker explains. "Apple's brilliance was in establishing a platform, iTunes, that enables you to customize your mobile device. It's all about the user experience."

Because that experience is so valuable (due to its highly personal nature), Apple can charge more for its devices at a time when most of its competitors are doing whatever they can to lower the prices of their products.

Amazon has followed suit by selling its Kindle line of e-readers and tablets at a price that suggests the company is making little if anything on these devices; Amazon is doing so because it plans to profit from the content – the e-books, television shows, movies, music as well as traditional books, sporting goods, electronics, household items and more available on Amazon.com. These devices will make it more convenient for customers to purchase.

Department store chain Kohl's, which has performed very well in recent years despite a downturn that crushed many competitors, employs a less technological yet equally valuable form of convenience: location. Bypassing traditional malls, Kohl's locates its stores in strip malls so that customers do not have to drive as far to shop for the same brands they might otherwise pay more for at more upscale department stores.

"More than anything else, customers are looking for a unique experience at the price point that works for them," notes John Karonis, president of consulting firm Kurt Salmon's consumer group.

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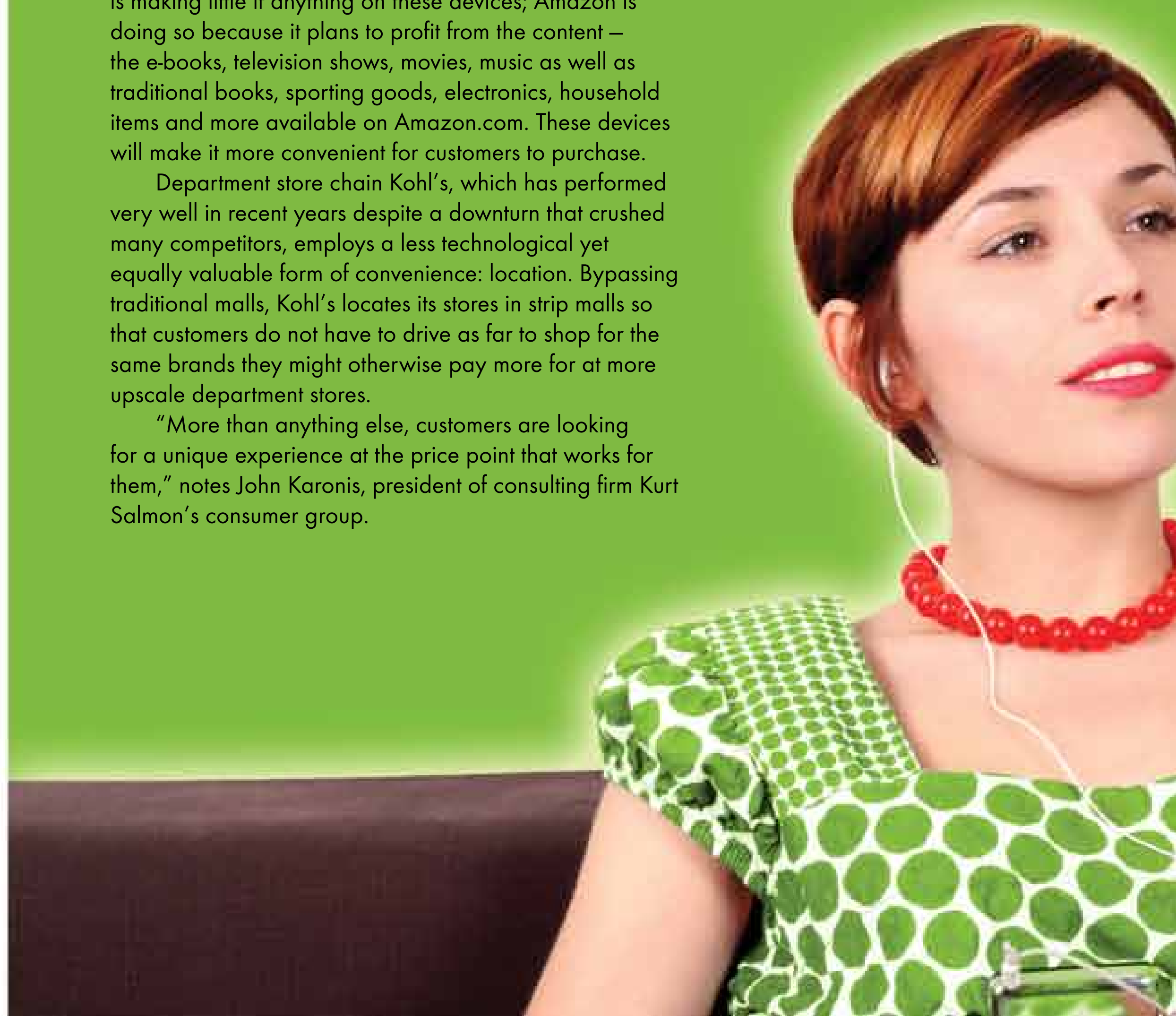


As a recent McKinsey & Company report indicates, "consumers like belonging to a tribe." Today, more customers are joining digital tribes, connecting to each other "because of a common passion – be it a product, a service or an interest," according to McKinsey.

As more and more tribes appear, thanks to the adoption of Facebook, Twitter and other forms of social media, companies are learning how to translate digital

Force 4 Social and Mobile Technology

customer conversations into higher sales, better products and services and deeper customer connections.

"People are using web-based technologies to interact socially," reports Ed Crenshaw (Baylor BBA, '73), CEO of Florida-based Publix Super Markets, the largest and fastest-growing employee-owned supermarket chain in the United States. "As a retailer we have a great opportunity to listen and engage our customers and associates by participating in and encouraging conversations."

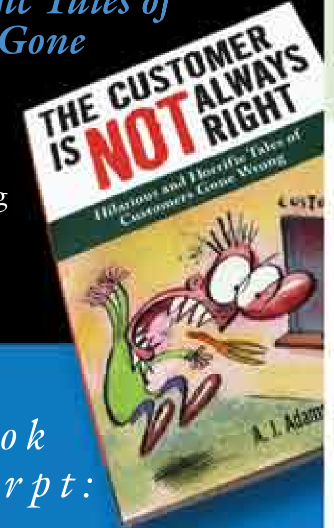
Last year, more than half of senior marketing executives reported that they shifted investments in traditional marketing to digital marketing projects, according to a Society of Digital Agencies survey. These executives also identified social networks as a top marketing priority.

As they should. About 5 percent of shoppers in IBM's consumer study make a purchase when they visit a retail website. The conversion rate doubles to 10 percent among shoppers who visit the same site directly after visiting a social media site, the same research shows. "There's a social media factor going on here and it really matters," Puleri says.

The same holds true for mobile technology; as more customers rely on their smart phones to make purchasing decisions, more companies are beginning to integrate mobile capabilities into their marketing, sales and customer service offerings.

"...thanks to the adoption of Facebook, Twitter and other forms of social media, **companies are learning how to translate digital customer conversations into higher sales,** better products and services and deeper customer connections."

Service providers are taught the motto, "The customer is always right." However, A.J. Adams' book ***The Customer Is Not Always Right: Hilarious and Horrific Tales of Customers Gone Wrong*** proves that customers will do anything they can to test that belief.



Book Excerpt:

I Think We've Found the Problem

Call Center - Concord, California

ME: *(on the phone with a customer)* "I can have a repairman out there in two days to fix your dishwasher."

CUSTOMER: "Two days? TWO DAYS?! What am I going to do with the dishes in the meantime?!"

ME: *(jokingly)* "For $10 a day I'll come out and wash them."

CUSTOMER: "Okay, great! Can I put that on my store card?"

ME: "Um…I was just kidding, ma'am."

CUSTOMER: *(angrily)* "Let me talk to your manager!"

(After my boss speaks with the customer, he comes over to talk to me.)

BOSS: "Did you tell the customer you would wash her dishes?"

ME: "I was just joking!"

BOSS: "NEVER joke with a customer. Customers have NO sense of humor. None."

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Despite the growing influence of new technologies, marketing and CRM experts sound a note of caution concerning how companies respond to customer feedback in the social era. If companies respond too quickly, too intensively and/or without sufficient

Force 5 Over-empowered Customers

analysis, the response can quickly inflate marketing and service budgets, notes Tanner.

"It's very important to address certain questions first," Tanner says. "What is the right way for us to use social media? What factors make it an appropriate communications tool, and what factors make it an inappropriate communications tool?"

For example, some CRM pundits took The Gap and Tropicana to task for yanking new logos in reaction to customer backlash.

"The customer isn't living and breathing the promotions as the marketers are," says Erin Raese, chief operating officer of marketing association Loyalty 360 and a former Hyatt Resorts marketing manager. "It takes a customer awhile to understand the promotion, get comfortable with it and then use it."

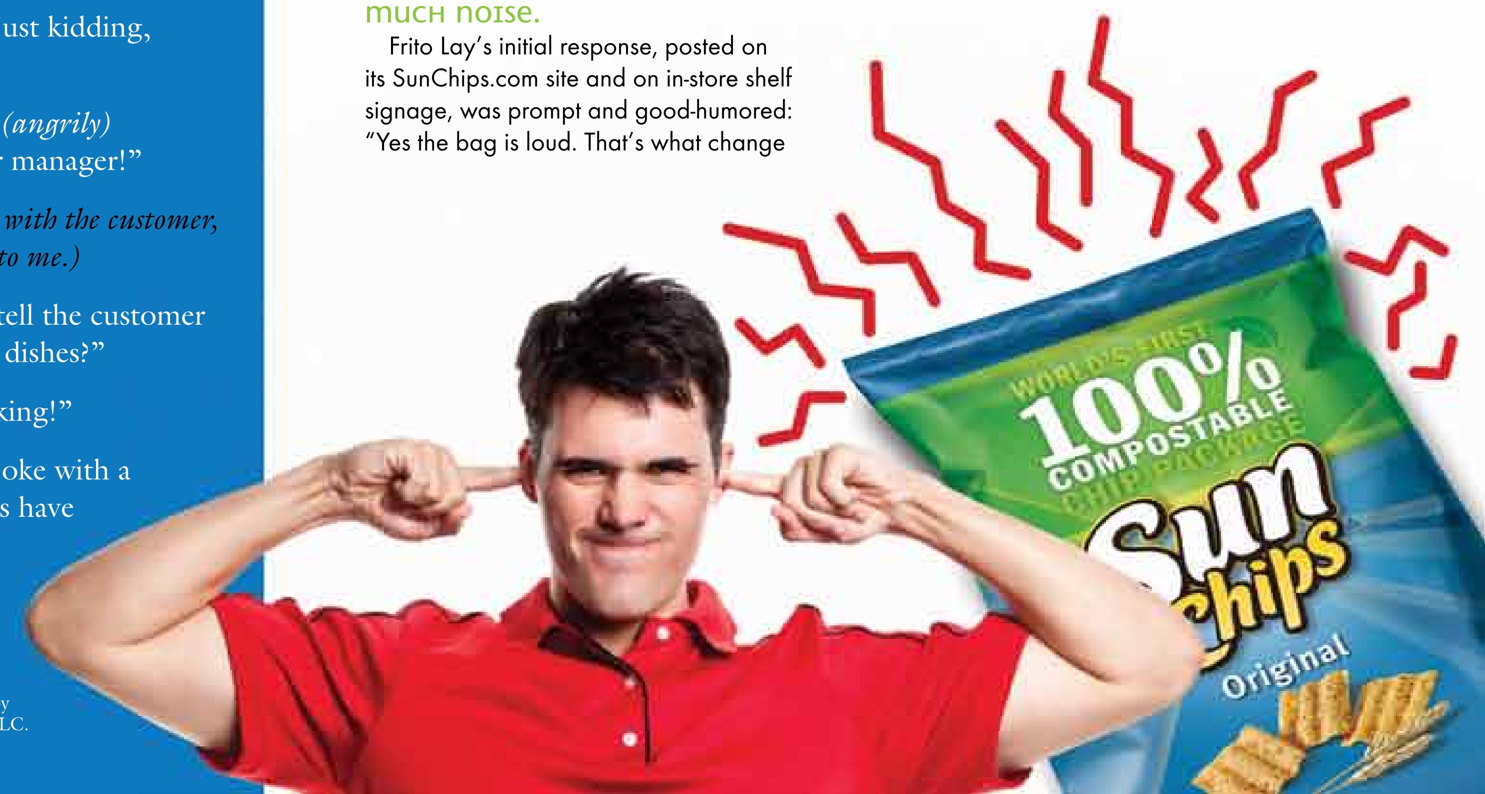
Frito-Lay's response to customer feedback after it introduced biodegradable bags for its SunChips brand might serve as a case study for savvy "social CRM." After the new bag appeared, a Facebook group called "Sorry but I can't hear you over this SunChips bag" sprung up, attracting more than 40,000 members who complained that the new packaging created too much noise.

Frito Lay's initial response, posted on its SunChips.com site and on in-store shelf signage, was prompt and good-humored: "Yes the bag is loud. That's what change sounds like." But the "bag-lash" continued, and Frito-Lay soon pulled most of its compostable packaging.

"Within a week, there was a new set of Facebook groups grousing about the demise of the bags," reports Jonathan Copulsky, a Deloitte principal and author of *Brand Resilience: Managing Risk and Recovery in a High Speed World* (Palgrave MacMillan, 2011).

The SunChips brand team continued to assess the threats and opportunities related to its environmental friendly packaging, ultimately treating the customer feedback (both pro and con) as an impetus to embark on "a journey to developing a better bag." This effort produced a biodegradable, yet quieter bag, and information about the bag is available via a "compostable packaging" link on the Sunchips.com home page. The link explains how the bag was tested, why Frito-Lay developed the bag and how people can compost.

This information also clearly expresses the company's rationale behind this brand decision. Perhaps even more important, the link demonstrates how the company listened to, considered and incorporated customer input into the process.



That type of listening appears to be a killer app in the newly mobile and social era of customer relationship management. Frito-Lay's SunChips experience also shows the way in which the latest approach to customer service incorporates processes and tactics from the realm of risk management.

"The train has left the station as far as customer [brand] influence goes," Copulsky notes. "Whether the influence is invited or uninvited, it's going to happen. This is all about risk. When it comes to their brands, companies need to be risk-intelligent organizations. That means figuring out in advance what brand risks are acceptable and what risks are unacceptable, and then being prepared to take action."

One of the most common actions current business leaders need to take involves talent management: finding people who understand social media and mobile technology.

"A company's most senior executives often will have the least amount of experience with social," reports Boston Consulting Group partner Kate Sayre.

"Social media often requires significant cultural change within organizations. Suddenly, you have some of the most junior members of the organization becoming much more fluent in understanding what social media can do and how it can really drive the business."

Pullig agrees, noting that 90 percent of the work the students in his recent brand management class conducted during their most recent internships related to social media.

"Thanks in large part to the ways in which customer relationships are evolving and thanks to the transparency of social, mobile and other technologies," Pullig adds, "young people have a greater opportunity to have a more significant impact on organizations today than they did 10 or 20 years ago."

This impact calls to mind another quote from a bygone era: Jack Welch's "Change before you have to" wisdom ... a comment that should be updated to reflect the new era of social customer service: "Change with your customer before they force you to change without them."

Talent Implications

Learning How to Say "I'm Sorry"

When it comes to apologizing, CEOs may want to go back to school. A new era of what Chris Pullig, department chair and associate professor of Marketing at Baylor University's Hankamer School of Business, describes as "forced transparency" has intensified the need for business leaders to acknowledge when their companies commit service mistakes in the eyes of their customers.

Top executives at globally renowned companies, including Netflix and JetBlue, have taken to blogs and YouTube to say sorry for botched strategic decisions and customer service snafus. These leaders can attest to the importance of apology management.

After Netflix CEO Reed Hastings apologized for a poorly communicated decision to increase monthly video rental fees, *The Wall Street Journal* indicated that Hastings had just taken part "in a storied tradition: the corporate half-apology."

In October 2011, JetBlue Airlines chief operating officer Rob Maruster asked customers for a second chance following reports that passengers had been stranded for seven hours on a tarmac-bound plane in Hartford, Conn., during a snowstorm. There was only one problem with what otherwise appeared to be an adroit apology: JetBlue Airlines CEO and founder David Neeleman had already asked for a second chance four years earlier when he posted his own YouTube *mea culpa* following a similar tarmac-stranding incident.

Until recently, public apologies from CEOs were extremely rare. That's changing. The experiences of Neeleman, Hastings and others demonstrate that it's not enough to say you're sorry; how and when you apologize, as well as how your company behaves afterwards, matters more. As Pullig notes, a well-executed apology can stimulate a "recovery paradox" in which the apologizing organization enjoys a boost in customer satisfaction because customers appreciate the fact that the company admitted a mistake and took steps to remedy it.

If business leaders want to leave half-apologies behind and generate better returns on their *mea culpas*, they might take a cue from the University of Michigan Health System and University of Illinois Medical Center at Chicago. Several years ago, both institutions began letting their doctors apologize to patients after medical errors occurred. The decision helped humanize the care doctors provided and also delivered bottom-line benefits. In the months following the "OK to apologize" decision, malpractice lawsuits decreased by 50 percent at University of Illinois and by roughly 70 percent at University of Michigan.