

WHITEPAPER: Loyalty and the Interaction Economy

Even as the philosophy behind the "Experience Economy" has taken root with marketing strategists, a new way of creating value via loyalty rather than premium price is beginning to emerge.

Keywords & Concepts

Customer Satisfaction

The Experience Economy

Net Promoter Scores

Customer Service

Surveys

Cisco

Nordstrom

Gallup – Human Sigma

Interaction Economy

The next wave in value generation will come from companies actively designing and managing the details of their customer-to-company interactions.

Introducing the Interaction Economy

The 1999 bestseller *The Experience Economy* by B. Joseph Pine II and James H. Gilmore extolled the importance of creating a vivid, memorable customer experience. Its observation that companies could charge more for the customer experience than they could for actual goods or services quickly gained favor among marketing strategists.^[i]

However, due to the advent of sophisticated collaborative technologies, the rise in customer expectations and research confirming the variability and importance of customer interactions^[ii], some of its tenets no longer apply. The Interaction Economy replaces the Experience Economy as a forward-looking approach to creating customer value. While only a few companies are currently practicing pieces of this model, companies choosing to embrace this approach will become more effective with their customers right now and into the future.

Interaction Economy: A Definition

Customer interactions offer a distinct kind of value that can work *for or against* a company's bottom line. The Interaction Economy is based on the idea that well-designed, consistent and regularly audited interactions lead to increased productivity.

A Gallup Organization 2005 study lends scientific credibility to this premise. The study finds that quality interactions result in **"fully engaged customers...[who] deliver a 23% premium over the average customer in terms of share of wallet, profitability, revenue and relationship growth"** [emphasis added].

Conversely, poor interactions result in what the Gallup Organization calls **"actively**

disengaged customers. . . [and these customers] represent a 13% discount on the same measure" [emphasis added]. Most importantly, the Gallup study finds that business units with customer engagement levels in the top 25% outperform other units (on profit, sales and growth) by a factor of 2:1.^[iii]

The Interaction Economy extends into all customer interfaces—those that involve your employees, the web, self check-out, kiosks and all other customer touchpoints. That said, the bulk of these interfaces are likely to include your staff—after all, it still takes people to ring up orders, help customers find products, and run call centers. It is hard to imagine that humans will ever be completely erased from the equation.

An Interaction Strategy VS. an Experience Strategy

Interaction and Experience Strategies offer two different models for creating value and collaborating with customers.

Value Creation: Whereas an Experience Strategy uses excellent experiences to justify premium pricing, an Interaction Strategy seeks to engender high rates of loyalty, because growing the customer segment of multi-time buyers is almost always more profitable than selling at top price. It is difficult to imagine a company successfully charging 6 times the standard for its services or products. On the other hand, it is possible to imagine an enthusiastic customer returning to buy 6, 7, 8 or more times. **With an Interaction Strategy, the objective is not to get customers to pay more for the experience, but to create value such that customers become *loyal* to the experience.**

Customer Collaboration: While The Experience Economy touches on a collaborative model between companies and their customers,^[iv] the Interaction Economy approach radically expands on this idea. Using an Interaction Strategy, collaboration is not limited to listening to customers at a few points in the customer life-cycle. **Instead, collaboration is planned, controlled and integrated into every touchpoint with the customer.**

Employing an Interaction Strategy

A detailed "How-To" for all industry sectors is beyond the scope of this article. But if you are considering an Interaction Strategy to improve productivity, then you will benefit from the three-step method outlined below. While each step is valuable in itself, if you forfeit any one of these areas, you will fail to reap the rewards of a true Interaction Strategy.

Step# 1) Engage Active Customer Listening

Before designing your interaction objectives, it is essential to understand your customers' motivations. A solid customer listening program digs beneath customers' experiences to identify the range of their expectations, needs and aspirations.

When listening to your customers, keep in mind that every touchpoint is worthy of exploration. In our own customer listening experiences, we have often been surprised when seemingly straightforward details presented fertile opportunities for improvement. For instance, for one mail order company, we almost didn't inspect potential problems at the initial touch-point, when customers called in to request the product or company catalog. On the face of it, requesting a catalog seemed like a simple thing—how could there be gaps here? Fortunately we did test this apparently minor point of contact. As it turned out, there were critical changes that needed to be made immediately—including notifying customers of when they would receive catalogs and clarifying which catalog customers would receive. Furthermore, this one area had significant implications for the entire customer lifecycle.

In addition to employing a comprehensive customer listening program, it is also important to collect the most accurate, bias-free information possible. Some companies gather their data from select customers—for instance, those who voluntarily call an IVR-based system with their experience perceptions. Customers who complete these surveys tend to comprise a misrepresentative sample. Further, the questions asked via this system tend to be so simple that they do not yield insight or even useful data. Whether feedback is solicited from complaint cards, email surveys, or web forms, the data is often meager and plagued with bias. (See our article on [The Pros and Cons of Surveys](#) for more.)

Step #2) Prepare a Staff Plan at Each Customer Touch-point

While many companies try to listen to their customers (step #1), the vast majority delegate the job of designing their customer interactions to frontline employees. That's weird. Would you ask a \$9 an hour intern to prepare your media plan? Or write your collateral? Probably not. If this seems like a nit-picky point, consider this: Whether you like it or not, your customers respond on conscious and unconscious levels to every aspect of their interactions with your employees. And in most cases, these interactions have a greater cumulative impact on them than any page on your website or slick ad you are likely to run.

Take for example a sales associate propped up against a checkout counter who bellows out "How ya doin' today?" to customers entering the store. This associate has precious few seconds to make an impression on customers, and unfortunately blows it on a question that solicits a hurried, perhaps brusque, "I'm OK" response. Most likely this store's brand has nothing to do with "How ya doin'?" Instead, here's an example of a more appropriate greeting that actually addresses the staff objective of helping customers find what they need: "Thanks for coming in; can I point you in a direction?" Of course, there are many variations on this statement, but the point is to use the moment to further the brand and sales objectives of the particular company.

Bottom line: Don't limit your involvement with employees to policies and procedures. Get clear about your customer objectives relative to every possible positive and negative point of contact (because yes, unfortunately, sometimes things just don't go right). Then brainstorm (and when applicable role-play) with your employees for ways they can express your business objectives using improvisation and their personal style.

Step #3) Most Importantly Test and Measure

Just because most companies talk up their excellent customer service does not mean that they have perfected the customer interaction. Generally, there's wide variation in the proactive, informed and genuinely connecting aspects of customer interactions.

According to Gallup, even high-performing organizations display immense variability in their service levels, with just 29% of U.S. employees "energized

and committed at work."^[v]

Presently most companies simply refuse to accept that there is huge variation among customer needs, employee approaches, and the resulting interactions. Again, the Gallup research shows **that local performance variation is prevalent throughout business, and that "the customer's experience still depends almost entirely on the particular rep" he or she encounters**^[vi] [emphasis added].

Objective measurement and feedback addresses this variability at a local level. With a measurement process in place, immediate action can be taken to remedy performance gaps. Then, once you're confident that the designed experience is working, go out and test it. Call your company, use your website, walk into your stores and see if anything about the experience is generic, artificial or annoying for customers. Be critical and make sure you are evaluating a situation in which the employees don't know they're being observed. Then wait a week or two and test again.

So, Who Else is Talking about the Interaction Economy?

A few executives here and there have begun to describe a new, "collaborative" kind of marketplace in which customers and companies engage in a dialog to "co-create" experiences.^[vii, viii] For example, Cisco Systems CEO John Chambers has promoted the Interaction Economy as an economic model "based around collaboration and flexibility to foster ... more "personalized customer experiences."^[ix] A New York Times September 2007 article defined this new Interaction Economy as the economic segment "in which people collaborate, solve problems and design products."^[x] The article referenced a McKinsey and Company study that put "Interaction Economy" activity at 40% of all labor activity.

These sources are mostly using the phrase Interaction Economy to refer to how companies can partner with their customers to maximize value. We see this as a good argument for the essential practice of customer listening (Step 1 of the Interaction Strategy). But this omits the details of what companies can do to put their best, most branded foot forward--steps 2 and 3.

For example, surgeons, lawyers and accountants—all of whom must collaborate with their customers to create value—have an opportunity to maximize their collaborative value by managing their interactions in deliberate and controlled ways. Yet, in our own work with professional services organizations, we constantly spot front desk people who don't know how or when to return calls, surgeons who don't have a handle on creating trust with patients, and lawyers who don't engender client confidence through their process explanations.

What Kinds of Companies Can Benefit from an Interaction Strategy?

The age-old question for all companies is: "Could our customers be buying more?" In tough economic times it is tempting to hope that the situation will improve, but hope is not a strategy. Proactive strategists will take this time to squeeze better performance out of their existing customer interfacing moments. After all, the single greatest cost for many companies comes from customer interfacing dollars spent on payroll, web and call centers. Therefore, it is folly not to optimize in this area. In fact, this is exactly the time to increase productivity with customers and to succeed consistently at the point of the company-to-customer interaction.

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