Satisfaction, sacrifice, surprise: Three small steps create one giant leap into the experience economy

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Abstract *The authors describe and explain the progression of economic value, showing that customizing a good turns it into a service, customizing a service turns it into an experience, and customizing an experience turns it into a transformation. Businesses that wish to prosper in the emerging experience economy should begin by mass customizing their goods and services. To determine which products to customize, many companies gather customer satisfaction or "voice of the customer" surveys that use market research techniques to get data. However, these techniques do not go far enough to determine what and where a company should mass customize, because customer satisfaction measures market, not individual customer, satisfaction. The authors conclude by presenting their 3-S Model that shows the importance of driving up customer satisfaction and driving down customer sacrifice as a foundation for effectively instigating customer surprise.*

Keywords *Customer satisfaction, Mass customization, Experience, Customer loyalty, Consumer behavior*

In a previous *Strategy & Leadership* article, we argued that goods and services were no longer enough to compete in today's increasingly commoditized world; companies had to move beyond goods and services to stage experiences and guide transformations[1]. Experiences (memorable events that engage customers in inherently personal ways, like going to a theme park, visiting a museum, or engaging in sporting activities) and transformations (a series of experiences that change the customer in some fundamental way, like toning up at a fitness center, resolving problems with a psychiatrist, or improving one's business through a consultant) are distinct economic offerings built on top of services, goods, and commodities.

In earlier work, we also made the case that mass producing one's products and processes would not cut it in an increasingly turbulent competitive environment[2]. Instead, companies must mass customize their goods and services to create offerings more relevant to the wants and needs of individual buyers, differentiate their goods and services from the sea of look-alike competitors, and thereby increase the value provided – and thus the price charged – to users and clients. Now let us relate these two seemingly disparate lines of thought by revealing what we call the progression of economic value, where we see that customizing a good turns it into a service, customizing a service turns it into an experience, and customizing an experience turns it into a transformation. (See Exhibit 1.) Therefore, businesses that wish to prosper in the emerging experience economy should first get their act together by mass customizing their goods and services.

Determining exactly what customization to implement is no easy task. Which features or benefits of the offering should be customized, and which should be left standard? Where across the value chain would buyers most prize customization? What key leverage points would provide the greatest bang for the buck? And what modular and environmental architectures – crucial to any mass customization endeavor – would be most effective in turning the design, selection, and acquisition of the offering into an experience itself?

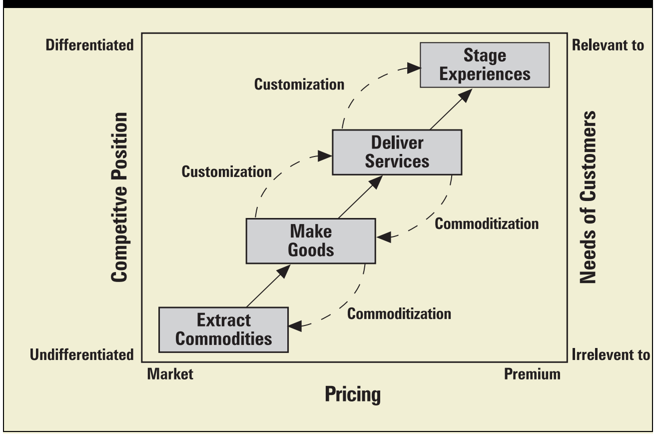
What do customers want?

To answer such questions, many companies gather customer satisfaction or "voice of the customer" surveys that use market research techniques to get data. Such information provides a great foundation for understanding the general needs of one's customer base. However, these techniques do not go far enough to determine what and where a company should mass customize. After all, customer satisfaction measures market, not individual customer, satisfaction. Few managers bother scrutinizing the individual results; they simply view a few "CustSat" numbers that supposedly represent various market segments. They design surveys to ease tabulation, not gain true insight into customer-specific wants and needs, and every customer that fills one out knows he will gain no direct benefit.

Further, rarely do customer satisfaction surveys even ask for information about the particular needs and wants of whoever fills them out. Rather, they invariably ask buyers to rate how well the company or its personnel performed on a series of pre-defined categories. Managers gain precious little insight into what buyers truly want and need, as evidenced by what seems to be the most common theme of such surveys: How are we doing?

What we are doing is inundating customers with incessant surveys that have too little impact on what customers truly need. One airline questionnaire of this ilk even had a headline, incredibly, asking travelers to "Help us reinvent our airline" – an act that either overstates the impact of the such generic customer input or underestimates the nature of corporate reinvention.

Exhibit 1 — Shifting up the progression of economic value



A more memorable measure

Why do companies take this approach? Because as Dave Power III of J.D. Power & Associates says, "[W]hen we measure satisfaction what we're really measuring is the difference between what a customer expects and what the customer perceives he gets"[3]. In other words:

Customer satisfaction = [What customer expects to get – What customer perceives he gets].

Customer satisfaction measurements essentially focus on understanding and managing customer expectations of what companies already do, rather than truly ascertaining what customers really want. While such measurements have their place, companies must do more than merely measure against perception to mass customize effectively. They must understand the nature of customer sacrifice, the gap between what a customer settles for and what he wants exactly:

Customer sacrifice = [What customer wants exactly – What customer settles for].

When we understand customer sacrifice, we discern the difference between what a customer accepts and what he really needs, even if the customer does not know what that is or cannot articulate it.

While companies employ total quality management (TQM) techniques to drive up customer satisfaction, they must employ mass customization techniques to drive down customer sacrifice. And while TQM programs help reduce waste associated with mass-produced goods and services by eliminating redundancies, bottlenecks, and other inefficiencies, focusing on customer sacrifice eliminates the waste that occurs any time a business performs an activity or expends a resource that some particular customer does not want. Indeed, because TQM programs often result in new features (of a good) or dimensions (of a service) geared to improving the satisfaction of the averred "average" customer, the solution for increased satisfaction becomes the source of additional sacrifice. Regardless of the number of improvements, the offering remains uniform for all customers.

But individual customers differ in the exact combination of features or benefits they desire. They constantly face trade-offs, trying to decide if enough beneficial components exist to tolerate the marginal and offset the detrimental. Rarely do wants and needs match exactly the one bundle that comprises a company's offering, so whenever a customer buys any mass-produced offering, he accepts the undesired components along with the desired, meaning the company wasted activities and/or resources in production or delivery. With goods such as VCRs and video cameras, for example, manufacturers constantly add incremental features in the hope that a new one may prove desirably novel. The same dynamic occurs when a hotel furnishes every room with an iron and ironing board that go unused 99 out of 100 nights, or when most of those bags of pretzels and cans of soda an airline worker piles on a beverage cart end up right back in the galley.

"Customer satisfaction measurements essentially focus on understanding and managing customer expectations of what companies already do, rather than truly ascertaining what customers really want."

Designing for the average is the root cause of customer sacrifice; every mass-produced offering comprises a bundle of "take-it-or-leave-it" features or dimensions offered to all customers. The more features bundled, the greater the likelihood of introducing some element that disqualifies the offering with a particular buyer (either because he does not want the element or does not want to incur the perceived higher price for a marginal element). Similarly, talk about "the customer" in many organizations really means designing for "the average customer," who does not really exist. Unless people keep particular customers – real, specific, and known individuals – in view, such efforts simply trigger initiatives to perform activities and expend resources without knowing the individual levels actually required.

Consider the airline industry. Customer sacrifice fills every flight across hundreds of service dimensions. Let us examine, for example, the beverage cart. Once the plane reaches a safe and comfortable cruising altitude, the beverage cart comes down the aisle, and the flight attendant asks, "Would you like something to drink?" A diehard Pepsi drinker would naturally request one, only to be asked (on most airlines), "Is Coke OK?" Backing off from his true desire, the customer generally accepts the Coke. He sacrifices. On the next two, three, or maybe four flights with the same airline, the same question, request, and answer arise. Finally catching on, the customer begins asking for – what? – Coca-Cola! Learning that the airline does not carry his favorite beverage, the airline finally trains him to expect an alternative. Only then can the airline meet expectations. (And, of course, for those few airlines that offer Pepsi, the Coke drinkers sacrifice.)

To the airline, that individual represents another satisfied customer because he always receives what he expects. But underneath this *faux* satisfaction lies the source of innovation that can turn an ordinary airline service into a memorable event: the opportunity to help customers experience less sacrifice. Every time a provider of a good or service interacts with a customer, both parties have an opportunity to learn. Eventually, one party changes his behavior as a result of that learning. Unfortunately, all too often that's the customer. He starts asking for something other than what he wants exactly – or perhaps he simply goes away.

Of course, some business commentators say that conditioning customers (that is, coercing them to lower their expectations) to accept less than exactly what they want breeds good business practice, especially if a business reduces its costs without overly dissatisfying the customer. But herein lies a sure route to commoditization, for it unduly focuses the company on internal costs at the expense of customer needs. An attitude of "They won't mind" leads inevitably to operational practices replete with customer sacrifice. It also leads to higher costs if the company has side-stepped an opportunity to ascertain individual needs and eliminate wasteful practices.

A refreshing experience

The one airline that is working on tracking individual customer preferences for not only beverages but meals, magazines, and other amenities is, not coincidentally, the one that focuses most on the guest experience: British Airways. Going online with a new software system from Industri-Matematik International in 1998, BA Catering tracks the needs of customers flying 1,200 plus routes from 160 airports around the world to coordinate the right deliveries from over 300 suppliers. The next step: downloading the individual preferences of those high-value customers to provide each with only and exactly the onboard services they desire. In the true spirit of mass customization, by doing only and exactly what each wants, not only does BA turn its customized service into an individual experience, it lowers its costs to boot. How?

Among other things, it eliminates the waste of both loading and carrying unused beverages, meals, and other items onto the airplane, where every pound of weight adds to the cost of fuel burned. By linking its demand chain in this way, BA expects to save $5 to $8 million a year, and paying back its investment in the first year – and that is before it even begins to realize the individualized experience benefits[4].

When Sir Colin Marshall first realized that British Airways was really in the business of orchestrating experiences, he thought that the "wear-out factor" for the BA brand was "somewhere in the five-year range. Now I am pretty convinced that five years is about the maximum that you can go without refreshing the brand"[5]. Or less. Experience stagers must constantly refresh their experiences – change or add elements that keep the offering new and exciting, and worth paying money to experience all over again. Failing to do so denigrates the offering. Rather than having an experience that remains the same between visits, people would rather try a new one where they do not know quite what to expect and are sure to be surprised.

That is why the repeat business at some theme restaurants – the Rainforest Cafe and Planet Hollywood, in particular – is so poor. Guests know exactly what to expect each time, both in the restaurants and the retail stores. Restauranteur T. Scott Gross, who wrote a series of insightful books on what he calls "positively outrageous service," describes a strikingly simple way to surprise diners. He tells of Philip Romano, founder of Fuddrucker's and more recently the take-out food store eatZi's, opening an out-of-the-way Italian restaurant named Macaroni's[6]. Rather than issue discount coupons to encourage new patronage – a seemingly ubiquitous, expectation-setting practice among many restaurant chains these days – Romano gave away free meals to the entire restaurant each month on a Monday or Tuesday. The random practice remained unannounced until a letter arrived at each table in place of the check, saying how awkward it seemed to charge guests for a meal, so this one was free.

Where most restaurants might only extend such generosity when customers have experienced poor service or a bad meal (when some recompense is expected), Romano's restaurant performed such acts only after guests were exceptionally treated and the food was fabulous (and guests expected nothing more than to pay their check). The surprise of the free meal created both a desire and a sense of obligation to return again and again . . . and again. Gross figured that surprising customers in this way cost Romano about 3.3 percent of his monthly gross, while it had a much greater impact on customers than either an ad budget of that size or a 3.3 percent discount across the board. And it turned an already good dinner service into a memorable experience.

Staging customer surprise

Reducing customer sacrifice through mass customization requires an awareness of individual customer needs and behavior. This awareness lets companies deliberately and systematically take the next step toward more experiential offerings by instigating customer surprise, perhaps the single most important ingredient needed by any manufacturer or service provider to begin staging memorable experiences.

Contrasted with both customer satisfaction and sacrifice, when companies stage customer surprise they exploit the difference between what the customer gets to perceive and what the customer expects to get:

Customer surprise = [What customer gets to perceive – What customer expects to get].

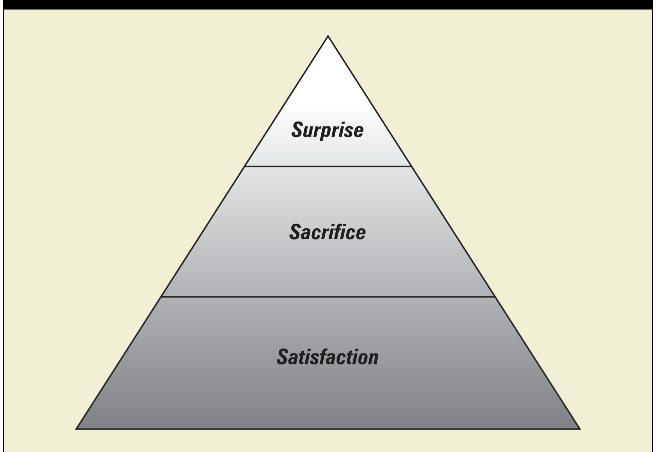
Rather than merely meeting expectations (by providing satisfaction) or setting new ones (by reducing sacrifice), companies deliberately attempt to transcend expectations – to go off in new (and unexpected) directions. This does not mean trying to "exceed" expectations, for that would suggest an improvement along a known axis of competition, nor does it mean uncovering new dimensions upon which to compete; those are the domains of satisfaction and sacrifice, respectively. Rather, it means staging the unexpected.

Creating such events still requires a platform of satisfaction and sacrifice, for, as indicated in Exhibit 2, without concerted and fruitful efforts in first driving up customer satisfaction and driving down customer sacrifice, there would be no foundation for effectively instigating customer surprise. Companies embracing this 3-S Model must go beyond "how we did" and even "what you want" to "what you remember."

The most memorable flight experiences, for example, have nothing to do with the expectations of normal – good or bad – airline service but with events that occur outside of the domain of expectations. These include the times one has read a particularly eye-opening book, met a celebrity, or become totally engaged in conversation with a seatmate.

The Reverend Jim Ignatowski. Recognize the name? On one episode of the old TV show *Taxi*, this usually atrocious (but fun-loving) cabbie decided to become the best taxi driver in the world. He did it by surprising his patrons with totally unexpected events: he served sandwiches and drinks, engaged them in sparkling repartee, conducted tours of the city, and even sang Frank Sinatra tunes over a jury-rigged intercom. So engaging was Iggy's use of customer surprise that the experience of being in his cab yielded greater value to his customers than the service of being transported by the cab from point A to point B. And Iggy's customers happily responded with bigger tips. By asking to go around the block again just to prolong his enjoyment, one patron even paid more for demonstrably poorer service. The service Iggy provided, taxi transportation, was simply the stage for the experience that he was really selling that week.

Exhibit 2 — The 3-S model



Real-world entrepreneurs also employ surprise to turn mundane services into truly memorable events. Consider one of the most basic of businesses, the shoeshine stand. Based in the airport of Kalamazoo, Michigan, Aaron Davis – not only a great shoeshine man but showman as well – uses customer surprise in multiple ways. In addition to his meticulous touch when applying polish and the syncopated snaps of his cloth (sensations rare but not unique to Davis) he introduces elements to the shine experience that have little or nothing to do with polishing shoes. If he finds a loose thread on a stitch, Davis produces a pocket lighter to burn it off. And at the conclusion of the shine, he not only ties the guest's laces, but then gently pulls up the guest's socks. Davis also offers proverbs to guests in need of a pick-me-up. And should a hurried traveler who regularly gets a shine fail to stop by one week, the very next shine is, as Davis says, "On me." From then on, such travelers make sure they leave enough time to take in a shine.

Unfortunately, larger enterprises often lack the surprise savvy of smaller businesses. But bigness begs no excuse. Managers must stop setting routine expectations and start thinking creatively about how to leverage some service dimension to stage memorable surprises. Why do airlines upgrade to first class their most frequent flyers only? That well-dressed college kid flying for an interview with a consulting firm, for whom he will fly every week in his imminent career, may be the best person to surprise with a seat in front of the curtain. A hotel could occasionally place a storage cannister – the kind resembling a can of soda – in minibars, so that a surprised guest may discover, say, a roll of 50 one-dollar bills inside with a note confirming that the guest may keep the money, compliments of the host. Would not that create greater loyalty, repeat business, and guest referrals than issuing discount certificates via direct-mail campaigns?

Companies should also rethink rebates. Automobile manufacturers, for instance, further commoditize their own offerings via constant rebate promotions – buy this or that model, get $1,000 back – setting expectations that focus purely on price. Some 90 percent of car owners claim to be satisfied, according to an Arthur D. Little survey, yet car buyers defect by the millions each year. Only 40 percent buy their next car from the same manufacturer (let alone the same model) that "satisfied" them the last time. Surprise payments sent unexpectedly – after the purchase – to car buyers, rewarding them for their selections, would have a greater impact on generating repeat sales. Rebates assume a one-period model in a multi-period world; surprise programs always ground the company in influencing the next buyer decision.

Consider, too, the many "frequent purchase" programs sponsored across a wide spectrum of businesses, from airlines to parking garages, from credit-card companies to cups of coffee. The explosion of these programs, designed to foster increased customer loyalty, reveals a fatal flaw: customers come to expect free goods and services. While some increased purchasing frequency may be stimulated by giving away merchandise (in what is essentially a retailing equivalent of the old manufacturing line that "what we lose on each customer we'll make up in volume"), many customers join multiple programs within a given category, and all know others can participate in the same programs. Customers are simply not engaged on a personal level, and over time, they take the benefits for granted – after all, they "earned" their free stuff. Like rebates, this serves merely to commoditize a company's offerings.

Instead of leading customers to expect free goods, companies could use the same money to create a memorable experience. Like Romano, these companies could give away the same percent of items at random on certain days. Every fifteenth or twentieth item could be free, or every fifteenth or twentieth customer could receive all their items for free. Alternatively, a store's register system could transparently inform the sales associate that this particular customer is highly valued, so surprise him with a purchase on the house.

Wait until you hear this one. . .

To truly differentiate themselves, businesses must first focus on increasing customer satisfaction, then on eliminating customer sacrifice, and finally on creating customer surprise. Taking these three steps will help shift any company up the progression of economic value. But – surprise! – there is actually a fourth element in the 3-S model. Unfortunately, space will not allow us to share it here, so we will just leave you in suspense. . .

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