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Clued In

How To Keep Customers Coming Back Again and Again

Lewis P. Carbone



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This book is dedicated to my family,
and to all the people who work to create and
manage valuable experiences for others.

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Motif Palette™

A convincing argument for understanding the total customer experience and must-reading for any manager concerned with growing demand. This book is full of important insights which are shared in a lucid, engaging way.

—Gerald Zaltman, The Joseph C. Wilson Professor of Business Administration, Harvard Business School, and author of *How Customers Think*

In today's business environment, one can pick being product-focused, marketing-focused or consumer-focused. If you choose to be consumer focused, this is the book to read. *Clued In* is experience management 2.0.

—Watts Wacker, FirstMatter LLC and author of *The Visionary's Handbook: Nine Paradoxes that will Shape the Future of Your Business*

A must-read for CEOs in business, industry, health care, service, or education because it has the power to totally re-direct a marketing or strategic plan to immediately provide a value-added experience for customers.

—Ronald A. Swanson, D. Ed., Chancellor Brown College, St. Paul, MN

Lou Carbone is to customer experiences what Edward Demming was to the quality movement—a pioneer in developing and codifying a managerial discipline around an important but abstract value. For more than 15 years—long before “customer experience” became a recognized business priority—Carbone has been helping companies design and execute what he calls “experience blueprints.” In this book, he goes beyond hype, analogies and bumper-sticker exhortations to offer managers a proven set of principles, tools and prescriptions for delivering a holistic and preference-creating value proposition.

—Stephan Haeckel, retired Director of Strategic Studies at IBM's Advanced Business Institute, and author of *Adaptive Enterprise: Creating and Leading Sense-And-Respond Organizations*

Carbone opens our eyes to the importance of experience in creating lasting relationships between companies and their customers. He gives us a framework to assess, design and implement the clues that sum up to preference, loyalty and profit. Companies that leave these clues to chance do so at their peril.

—Nick Agelidis, Director, Customer Service Nissan North America Inc.

It's time we realize that value is held in the minds and hearts of our customers, and is based on the total experience they have with our companies. *Clued In* does a tremendous job of demonstrating how we make this a conscious and repeatable strategy.

Our companies create experiences for our customers every minute of every day. In *Clued In*, Lou Carbone guides us through the conscious creation of these experiences, and how they translate into value in the minds and hearts of our customers and ultimately for our companies.

—Chuck Feltz, President of Deluxe Financial Services

Lou Carbone and his collaborator, Steve Haeckel, invented customer experience management in a groundbreaking article in 1994. Carbone has amassed vast knowledge of this vital subject in over 15 years of practice.

—Dr. Leonard L. Berry, Distinguished Professor of Marketing, Texas A&M University, and author of *Discovering the Soul of Service*

Clued In provides a powerful look into the world of understanding experience management. The case examples and frameworks create a rich language and understanding of how to “clue in” to customer and employee experiences. The book paves a roadmap for leaders on how to get started in better designing and managing experiences. Lou's passion for experience management was contagious—I found myself inspired and even more energized about the experience management journey Lou helped us begin at Taco Bell.

—Emil J. Brolick, President and Chief Concept Officer, Taco Bell

Lou Carbone deeply understands customers' experiences through the management of clues. These insights, shared in *Clued In*, help the rest of us build consistent and practical experience management activities that deliver repeatable and effective results.

—Mike Long, President and COO
Arrow North American Computer Products

Finally . . . a book that doesn't just tell us why “customer experience” matters and of the impending disasters that may await us when we get it wrong, but instead gives us a step-by-step toolkit on how to get it right and make it a part of our management practices today.

—John C. Ryan, Chairman/CEO
John Ryan Companies, The Art and Science of Financial Retailing

CONTENTS

INTRODUCTION *xix*

PART 1 THE CASE FOR EXPERIENCE MANAGEMENT 1

1 ORANGE ROOFS AND THE MOUSE: A TALE OF TWO ICONS 3

The Roots of Experience 3

Seeing Orange 5

Making Clues Systematic 7

A World Apart 15

Experience by Design 17

Experiential Vision 18

Enduring Lessons 19

A Constant Learning Process 21

Experience Evolution 22

References 23

2 EXPERIENCE AS A VALUE PROPOSITION 25

Smelling the Coffee 27

A Valuable Cup of “Joe”	29
Customers, Coffee, and Doughnuts	34
An Alan Wrench for Your Thinking	36
Taking the Next Step	39
References	40

3

THE BRAND CANYON	43
Brand and Experience	44
Exploring Experience Motifs	49
Brand Junction	54
A Tipping Point?	55
Below the Radar	56
References	59

4

EXPERIENCE VALUE MANAGEMENT	61
The Preference Model™	62
Tying a Ribbon Around Experience	63
Clue Math	67
Principles of Experience Value Management	69
Value-Added Education	76
Focusing on Clues	78
References	78

5

GETTING CLUED IN 79

- More About Clues 80
- Works Right, Feels Right 83
- Clued In 85
- Clue Clusters 85
- Clues in Action 86
- The Mechanic Side 88
- Too Much of a Good Thing? 89
- The Humanic Side 92
- Connecting with Customers 94
- Making Clues Count 97
- References 98

6

APPROACH TO EXPERIENCE VALUE MANAGEMENT 99

- Managing Experience Value 101
- Process and Experience 102
- Establishing a Context 103
- Deliberate Systems 104
- Systems Perspective 106
- Start at the End First 106
- Systematic Stagecraft 107
- It's Really About Performance 109
- Casting Calls 110
- Realistic Expectations 111
- Managing the Value Proposition 112

A Disciplined Approach	114
The Disciplines of Experience Value Management	115
Developing Competencies and Tools	116
Thinking Systematically	117
References	118

PART 2 THE PRACTICE OF EXPERIENCE MANAGEMENT 119

7 THE DISCIPLINE OF ASSESSING EXPERIENCE 121

Why Assess?	122
Exploring Experience Topography	124
Assessing with Purpose	125
Organizational Inclination	127
Audiences and Experiences	128
Experience Insight Wellsprings	129
Employee Experiences	130
Leveraging the Moment	131
Eye-Opening Discoveries	133
Internal Experiences	134
Creating a Sound Foundation	135
References	135

8

THE DISCIPLINE OF AUDITING EXPERIENCES 137

Multiple Perspectives 138

Auditing Components 141

Transforming Experiences by Observing 148

Emergency Sensitivities 150

Widening the Vision 152

Stretching Physical Boundaries 153

Everything Counts 154

Gaining Emotional Insights 156

Staying on Target 158

Insights Through Communication 159

Obvious and Subtle 160

Audit the Full Spectrum 161

Expect More 163

References 163

9

THE DISCIPLINE OF DESIGNING EXPERIENCES 165

Illusions and Realities 165

Experience Design Practices 167

References 191

10 THE DISCIPLINE OF IMPLEMENTING EXPERIENCES 193

Experiential Leadership 193

Familiar Approaches: A Clued-in Team 195

References 214

11 THE DISCIPLINE OF STEWARDING EXPERIENCES 215

Understanding Experience Harmonics 215

Experiential Learning Quest 218

Getting Clued In 223

Words and Meaning 224

Start Where You Want to Finish 228

On a Role 230

Stewards of True Value 233

References 234

AFTERWORD 235

APPENDIX 245

ACKNOWLEDGMENTS 255

INDEX 259

INTRODUCTION

BALANCING WHAT CUSTOMERS VALUE WITH WHAT BUSINESSES VALUE

Every sound business is built around a simple proposition: It makes or does something so well that customers will pay for the value being created. Peter Drucker, perhaps the most significant management scholar of our time, reduces this proposition to two basic axioms: A business has to make money, and a business has to make customers.

It's not an either/or—the two are opposite faces of the same coin. If a business doesn't make customers, it won't survive to make money. If it doesn't make money, it won't survive to make customers. One form of value must connect with the other.

Although many people in business will find this proposition familiar, fewer have extended its reasoning to the logical conclusion—that the *customer* is the ultimate arbiter of the value an organization creates and delivers, not CEOs, CFOs, shareholders, or stakeholders. Though each can make important contributions to the health and success of the business, none of them will be around for the long run unless the business creates value for its customers.

In recent years, many businesses—many entire industries, in fact—seem to have lost their sense of balance in this regard. In trying to maximize the value of customers *to their businesses*, they appear to have lost sight of the need for their organizations to create value *for their customers*. The evidence is depressingly familiar:

- Airlines have systematically reduced the experience of flying to the feeling of being herded onto and off of an airborne cattle car (a form of experience that was ongoing long before September 11).
- Banks persistently charge account holders premium penalties for the most routine services. Periodically, some even try to nick customers

for the experience of talking to a real live teller. Or the customer endures a circuitous maze created by the call center instant voice response banter to get to a destination.

- Credit card companies have tried to continually create new ways to bump interest rates into double digits and add painful penalty charges, to boot—this in an economy where the interest rate charged to banks has been at or near record levels.

Reorienting Priorities

From your own experiences, you can no doubt expand and extend this list with examples from across the full spectrum of business to find companies of every size and industry engaged in dysfunctional value creation. As wide-ranging as your examples may be, however, they'll probably have one thing in common: In virtually every case, someone will have made a decision that emphasizes how the customer can create value for the company (the financial value of the customer's business) more than how the company can create value for the customer. In few of these cases will the desires of customers have been factored in, let alone viewed as a priority. Far from trying to find a balance between customer expectations and business realities, it's a truism today that many decisions are based on only one perspective of value—the company's.

The question of how to balance the value of the experience to the customer and the value of the customer to the company leads to an opportunity to “value engineer” the relationship between organizations and their customers, thereby making any market segment profitable.

I believe today's organizations have become extraordinarily vulnerable. By neglecting to factor in customer expectations and preferences consistently —by essentially disenfranchising the customer from the focal point of value creation—these businesses have abdicated their obligation to customers and themselves.

The result? With modern management fixated almost solely on the bottom line, the value proposition of far too many businesses has become increasingly one-sided: lots of emphasis on the company but little on

enhancing the customer value. The overriding concern for maximizing short-term financial results now permeates business thinking from “mahogany row” to the front line. Even customers are prepared to concede to a rationalization that says “I guess that’s what they have to do to stay in business.”

As a consequence, I believe today’s organizations have become extraordinarily vulnerable. By neglecting to consistently factor in customer expectations and preferences, they have essentially disenfranchised the customer from the determinations of value. These businesses have fundamentally abdicated their obligation to customers and themselves. What’s more, sensing how little value such businesses place on their interests, customers today have become unpredictable free agents: increasingly disappointed, disgruntled, devalued, and ultimately disloyal.

The things businesses do to make money need to be balanced against an enhanced assessment of what it will take to make and keep customers in tomorrow’s even more competitive global economy.

The point? Without the long-term loyalty of their best customers to provide stability, the foundations of countless businesses are essentially anchored in sand. Yet it appears that many executives and managers charged with running those businesses are unwilling or unable to deal with their vulnerability.

They literally don’t have a clue.

This is not the preface to a soft-hearted call to disregard all the hard lessons learned in recent years on the make-money side of the house. Far from it: Indulging every customer request, no matter how fanciful or far-fetched, in the name of enhancing customer experiences is no more a formula for success than is relentless and unrestrained slashing of expenses. Competitive forces will continue to make it imperative to become ever better at taking care of the financial aspects of the business. If anything, the pressure on the make-money side is only going to continue to ratchet up.

But this is precisely why it’s time to address the balance by rediscovering the make-customers side of the equation, which makes this a call to re-anchor the foundation of the business itself. It’s time to get “clued

in”—to develop a renewed and urgent sense of customer value creation—because the consequences of disregarding long-term customer preference and loyalty in the name of short-term cost reductions and cost-laden loyalty programs are both predictable and painful to contemplate.

The premise of the analysis in this book is deceptively simple: The things businesses do to make money need to be balanced against an enhanced assessment of what it will take to make and keep customers in tomorrow’s even more competitive global economy. That means reconnecting—and in some cases, connecting for the first time—with customers as intimate participants, sometimes even partners, in the process of value-creation. Now more than ever, the value created for customers needs to be a central consideration in the short-term growth and long-term health of any business.

And experience is the key.

The Experience Differentiator

Within harsh financial realities, creating value for customers by providing distinctive experiential value is an exacting challenge. But it’s far from insurmountable. Making money and making loyal customers are not mutually exclusive.

The essence of experience as a value proposition is as old as business itself. It isn’t tied to or limited by geography, demographics, or economic forces. It applies whether an organization produces products, delivers services, or does a combination of both. It doesn’t matter whether the customer is a consumer or another business.

The fact is, customers cannot *not* have an experience! They’ll have one whether you want them to or not. The question is, How random or managed is the experience you are delivering?

Experience has always been both a bridge and a by-product when customers connect with organizations. But up to now, too many businesses have acted as though competitive advantage comes more from *individual* product and service attributes than from an ability to create a cohesive *total* experience within which products and/or services are

key components. But as many businesses have known for a long time, the “whole” is worth far more in impacting customers than any of the individual parts.

To be sure, the customer’s total experience—much of it unconscious and emotional, rather than coldly rational—has always been a component of the value proposition puzzle. But now, as product and service attributes become commoditized and evened out, experiential elements and their value are rapidly coming to the fore. The quality of the customer’s total experience is being increasingly recognized as the new differentiator.

Although this might seem like a bit of a stretch to some, it has been the focal point of my own work for at least 20 years. And I’ve been writing about it for more than a decade. In 1994, I collaborated with Steve Haeckel, who was then chair of the board of trustees of the Marketing Science Institute, in a first article on the subject for *Marketing Management*, the quarterly business management publication of the American Marketing Association. In “Engineering Customer Experiences,”¹ we laid out the basic principles on which I built my consulting business, and it eventually has led me to write this book.

“Customers always get more than they bargain for,” Steve and I wrote, “because a product or service always comes with an experience. By ‘experience,’ we mean the ‘take-away’ impression formed by people’s encounters with products, services, and businesses—a perception produced when humans consolidate sensory information.” [1]

In the article, we introduced the concept of experience “clues” as the manageable building blocks of an experience defined as sensory information, whether occurring by design or happenstance, that collectively influenced the experience value perceptions in the mind of the customer. We also identified the stakes involved: “Unmanaged, these clues may cancel each other out and leave no net impression on the customer, or worse, induce a strong net negative perception. But if systematically crafted into a positive net impression, the clues promote customer preference, which a company can leverage to differentiate otherwise commodity-like products and services.” [1]

Other Voices

In a subsequent issue of *Marketing Management*, John Deighton, now the Harold M. Brierley Professor of Business Administration at the Harvard Business School, responded at some length:

This article raises fascinating questions that deserve serious scholarly attention. Here are two practicing marketers who tell us that marketing can design our feelings for us and cite enough evidence to make the assertion at least intriguing. They are claiming powers for the art of marketing that are beyond the ken of most marketing theory, and I take that to be a rebuke to the state of theory.

When marketing studies consumer choice, using the methods and models of economics, it is doomed never to see anything more subtle than an economist could have seen. This article is a call to look beyond choice to the consumption experience, where we may see phenomena that stimulate our curiosity and point the discipline in directions that no other social science is as well equipped to go. It is worth remembering that the first steam engine was built before the laws of thermodynamics had been written, and so it is said that physics owes more to the steam engine than the steam engine owes to physics.

“Experience Engineering” is being proposed before we have much understanding of the relevant science, but it just might be the spur to creating that science. [2]

In the years since, evidence has grown steadily to indicate that both business thought leaders and pacesetting businesses are catching on. Steve Haeckel deserves some long-delayed credit for that. Creator of the sense-and-respond managerial model set forth in his book, *The Adaptive Enterprise* [3], retired director of strategic studies at IBM’s Advanced Business Institute, and now president of Adaptive Business Designs of Pound Ridge, New York, he has been working with me for years to promote the idea that systematically managing the “whole customer experience” represents an unprecedented—and untapped—source of competitive advantage. And that is unavoidably every company’s real value proposition.

Dr. Leonard Berry, noted author and distinguished professor of marketing at Texas A&M University, represents another noteworthy voice.

Len points out that creating the kind of service customers truly value is far more than a matter of the words used in marketing efforts. “The marketed brand contributes to brand meaning,” he states in *Discovering the Soul of Service* [4], “but not as strongly as the customer’s actual experience with the company.”

The tangible attributes of a product or service have far less influence on consumer preference than the unconscious sensory and emotional elements derived from the total experience.

On the basis of his groundbreaking research into how the human brain functions—research that is yielding some of the most important concepts and powerful tools yet brought to the field of marketing management—Dr. Gerald Zaltman of the Harvard Business School’s Mind of the Market Laboratory presents the case for experience management with mantra-like precision: The tangible attributes of a product or service have far less influence on consumer preference than the unconscious sensory and emotional elements *derived from the total experience*. [5]

A year before their book, *The Experience Economy: Work Is Theater & Every Business a Stage* [6], appeared, Joe Pine and James Gilmore wrote an article in the *Harvard Business Review* entitled “Welcome to the Experience Economy” [7], in which they laid out their own approach to the subject. Haeckel and I wrote a letter to the editor to second their notions, emphasizing that “companies cannot avoid giving their customers a total experience. But they can and do avoid managing its production. The vast majority of businesses deliver experiences without thinking about them.” [8]

We went on to emphasize the critical importance of translating this insight into business practice, noting that “Almost no one uses a systematic way of designing high-value experiences and delivering them consistently. Systematically engineering such experiences requires new management principles, tools, methodologies, and techniques.” [8]

Getting Clued In

The implications are enormous. Those “new management principles, tools, methodologies, and techniques” at last are becoming available and proving their worth. The body of research supporting the competitive value of managing the customer’s total experience is both compelling and growing. And landmark advances in understanding how people—especially in their role as customers—think and make decisions promise to provide the necessary knowledge and insight to help businesses rewrite the rules of the value proposition around systems that design, manage, and leverage total experiences.

For nearly 10 years now, my firm, Minneapolis-based Experience Engineering, has been in the forefront of the transition. We have been working with forward-looking organizations to create, in effect, the first steam engines of the experiential world.

In the pages that follow, I will share what I know about that world where experience—not traditional forms of product and service quality—is the focal point of the value proposition. I’ll do so openly, sharing lessons we’ve learned with clients from an array of industries. I’ve divided this exploration into two parts.

In Part 1, I’ll build the case for managing experiences—the global perspective that can help you see the outlines of this profound transition as they have begun to become visible.

- In Chapter 1, you’ll start off with an in-depth comparison case study of two organizations whose very different fortunes reflect the way they did or didn’t manage experiences over decades.
- Chapter 2 traces the evolution of the value proposition, particularly in the post–World War II world, where product attributes and service quality started to become commodities and have led to the coming of experience as a value differentiator.
- Chapter 3 takes a look over the edge of the “Brand Canyon” to discuss the relationship between brand and experience management and to show how focusing on experiences necessarily changes the way businesses think of themselves and what they make and do.

- In Chapter 4, you'll see how experience value can be managed by exploring some basic tools and models that will help you understand the dynamics of experience and experiential value perception.
- Chapter 5 narrows the focus to clues—the essential building blocks of experiences—exploring both the functional and the emotional forces at work in the mind of the customer as they are encountered absorbed and registered.
- Chapter 6 demonstrates how the challenge of managing clues places a premium on the development of cohesive and sustainable experience management systems that can evolve and grow over time.

In Part 2, the actual practice of managing experiences and the specific disciplines that can energize a systematic approach to experience management are featured.

- Chapter 7 focuses on *assessing* and a richer understanding of experience as the core of the value proposition.
- Chapter 8 introduces the discipline of *auditing*, in which you will learn to take apart existing experiences and see them as your customers do to gain insight into critical needs and true preferences in the process.
- In Chapter 9, you'll see how to leverage the insights from assessing and auditing into *designing* the total experience by creating clues that can be managed to connect with customer desires and lead to long-term preference and loyalty.
- By Chapter 10, you'll be ready to move into *implementing* experience designs, weaving and orchestrating the strands of individual clues into a resilient system that resonates more consistently for customers because experience and the value created is at the core.
- Finally, Chapter 11 explores the transition to *stewarding*, in which efforts evolve into maintaining and evolving an experience management system that produces sustainable, effective ways to make money *because* of the way you are making customers.

Finally, I've included an *appendix* of useful tools that have been developed or identified from others in 20 years of building experience management systems.

Value You Can Act On

My goal is to prepare you for a transformation that has been in the works more than a decade but is just now beginning to gain visible power and momentum. This transformation bodes well for businesses that have the willingness, the ability, and in some senses the maturity to regain a sense of balance between making money and making customers for the future.

As experience steadily eclipses conventional product and service perspectives in the minds of your customers, it has the potential to transform the most basic assumptions on which you've operated.

In the pages that follow, you will be comprehensively clued in to the dimensions, managerial imperatives, and learning from early adopters of what I term the practice of experience management.

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Part 1

THE CASE FOR EXPERIENCE MANAGEMENT

1

ORANGE ROOFS AND THE MOUSE: A TALE OF TWO ICONS

Clued-in management focuses on the total experience as the customer value proposition. Before laying out the case for this powerful approach, it will be instructive to see just how dynamic a force experience can be to a company's bottom line and vitality. Consider two organizations—one once identified by orange roofs and the other known by mouse ears—and the effects which decades of effective and ineffective experience management had on their respective fortunes.

The Roots of Experience

Roll back the calendar to the 1950s. In terms of business strategy this qualifies as close to the dawn of recorded experience management history. Yes, businesses managed their business before then. And yes, customers had experiences before then. But in many cases, the experiences were considered incidental to transactions; customers weren't very experienced (or very demanding); and the degree of choice, depth of information involved, and speed of marketplace change were far less powerful factors than they are today.

Today's interactive marketplace—with its emphasis on robust, fast-response consumer products and services, increasingly with experience management elements woven throughout—was still a relatively unexplored phenomenon in the slower and simpler 1950s. It was a different economic time and place. Having survived the Great Depression and a