



Why a Corrupted Service Covenant Has  
Made Customers **Wired and**  
**Dangerous** CHIP R. BELL & JOHN R. PATTERSON

# The service covenant

has been around for centuries. It has always been grounded in the concept of the direct or implied pledge of fair bartering: a merchant provides a service in exchange for some type of remuneration—coins, coconuts or chores. Energy might be spent on either side of the covenant on the fairness of the exchange. The server might spend energy on promoting the value of the service and customers might spend energy on getting perceived worth. But the essence of the agreement is a promise implied on both sides of the encounter, just as in the product covenant.

Beyond the essential promise, the covenant for a product is different from the covenant for a service. Customers give the product provider license to make the product without their direct participation or even observation. As customers we do not need to watch the manufacturer make our dishwasher; we can trust it will be as promised. The tangible, factual nature of a product or object makes determination of quality much easier.

As customers we have expectations the product will be as described and we have recourse if it does not—typically the object can be returned for a replacement or our money refunded if it failed to meet the value promised. Replacement means another object like the one we purchased (hopefully without a glitch) is taken from inventory and given to us. Bottom line, through either replacement or refund, the broken product covenant can be restored.

The service covenant is similar in some ways. Like the product covenant, there are expectations of features and benefits and value for value. Energy around promotion and price are similar. However, since a service, unlike a product, is largely an outcome with an experience attached, it cannot be stockpiled, inventoried, or sent back for a replacement when the covenant is broken. Displeasure with your haircut might get you a discount on your next one, but there is no way to get your hair back like it was.



So, what recourse is hardwired into the service covenant? The customer derives some comfort or security from the fact that service will be delivered through an experience which the customer co-creates with the service provider. The inclusion of nods, clicks, murmurs and sighs, both from customer and service provider during the co-creation process, provides customers a way to be the guardian of their side of the transaction. As a haircut customer, one can say, “Not so much on the sides” early enough in the experience to prevent the outcome from being a disappointment one is then forced to wear.

Unlike a product, a service is produced at the moment of delivery. You cannot create it in advance. You cannot send the customer a sample to be inspected and approved. Unlike a product, the receiver of a service gets nothing tangible, and value depends on the receiver’s experience and perception. As the service provider, you might be able to plan presentation, people-manners and processes, but for almost all services, it is not deemed a “service received” until it is experienced by (or with) the customer.

Should a product provider opt to change the way a product is manufactured or redo the manner in which inventory is organized, it can all be accomplished with minimal impact on (or involvement from) the customer. However, alter the way the service experience occurs and the covenant is fundamentally altered.

Let’s examine a simple metaphor. When banks got the bright idea of using ATM’s instead of a teller, they encountered sizable resistance. ATM use was less than 15 percent even ten years after the machines were introduced. Compare that to the speed of the adoption of smartphones or Netflix. The ATM fundamentally altered the nature of the service experience. Now, don’t push this ATM metaphor too far by examining it in light of today’s use. We all know today’s customers enjoy the convenience of the ATM plus the warmth of dialogue with Peggy or Paul inside if they choose. However, ATM acceptance changed only when tellers stood outside the bank and taught customers how to use them, allaying fears about the security of a deposit placed in an uncaring, automated machine.

Progress requires change. And, change provokes resistance. However, customers do not necessarily resist change itself. They accept change when they get a vote; they embrace change when they can participate. They resist the perception or prediction of being controlled or coerced without their involvement.

Migrating customers toward self-service, for example, can bring an array of time-saving benefits to everyone—service provider and service receiver. But the manner in which that migration typically occurs—without influence from customers—can be viewed as devaluing the co-creator, thus adding another spark to the flame of their opposition. Today's customers are already picky (all about value), fickle (reluctant to show loyalty), vocal (quick to comment on poor or indifferent service) and vain (only interested in tailor-made offerings). Armed with a computer and a network, the new normal customer becomes wired and dangerous if frustrated.

Bottom line, give the customer a great service outcome with only a mediocre experience and you will get a yawn. Outcomes are table stakes. The service outcome is what the customer expects: hospitals are clean, banks are safe, and airlines land safely, on-time and in the right city. It is the experience that separates one service provider from another.

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## Why the Service Covenant Became Corrupted

Many organizational leaders are struggling with the concept of customer experience as a critical success factor to monitor and manage. Only the very best service-providing organizations—Ritz-Carlton Hotels, Zappos.com, USAA—make customer experience information a topic of discussion when meeting with their boards to review financial performance. Ask an attendee of the last board meeting of a utility, manufacturer, bank, or high tech company just how much air time was devoted to how customers feel about their experience!

The challenge is not that leaders are unconcerned about customers. You can always count on them to join the banquet, banter and brass band during customer service week. If prompted, they visit call centers and hold town hall meetings with front line service providers. At the urging of their CCO or VP for customer service, they circulate articles about customer service or kick off a new customer service training class. And, these symbols of interest are important. But, rarely does a customer complaint, unless from a dignitary, keep them up at night.

Part of the problem with leaders' disconnects between their spoken passion and actual practice is the paradigm from which they are most comfortable operating. Way too many leaders try to drive a nail with a B-flat when it comes to changing to customer-centricity. Now, don't get us wrong. We are music lovers and big fans of B-flats. They are just not that useful when it comes to carpentry.

Think about it this way: Many senior leaders climbed the ladder of success because of their financial and/or technical prowess. It gives them great credibility with stakeholders interested in winning in the marketplace through skillful balance sheet management or having the latest whiz bang product first to the market. But the financial and technical paradigms from which they lead contribute to the dehumanizing of the service covenant—an implied or actual promise with customer participation as its cornerstone.

A paradigm is a way of viewing the world. A paradigm not only shapes what we see (or notice), it influences our language and, most importantly, our thinking. Far more than simply a point of view—like being a Democrat, Cowboys fan or early adopter—a paradigm strongly influences the way we process information in our brains. We think through the lens of life that we learned.

The great news is that different paradigms, blended together, provide a rich and meaningful understanding of the world. The downside is that attachment to a single paradigm creates myopia, bullheaded correctness, and even blindness. The result is much like the three blind men and the elephant. Was the elephant a giant snake? It sure seemed that way to the blind man holding the elephant's trunk. Or, was it a rope? The blind man holding the tail was convinced it was. Perhaps it was the tree reported by the blind man holding the elephant's leg. All were correct. Yet, none were accurate.

Many years ago a friend of ours, Tony Putman, suggested the idea that all organizations operate with three paradigms: the logic of numbers, the logic of machines and the logic of people. The financial world is obviously ruled by the logic of numbers, the technology world by the logic of machines, and the people (including customer service) world by the logic of people.

Before we go too far beyond our B-flat-nail-driving analogy, it is important to note that most leaders have their feet in more than one paradigm. And, while our description is designed to be a generalization, we would be the first to acknowledge that paradigm spotting is very complex business. Where we are heading is to outline how “B-flat thinkers” bring that particular paradigm and perspective to a scenario requiring “hammer thinking” logic. More importantly, we will explore how to bridge the gaps in order to “see the whole elephant.”

## The Numbers Paradigm Only Considers Service Outcomes

When leaders live in the world of numbers, their focus is on rational, logical, analytical cause and effect. If you told them, for instance, that  $2+2$  might be something other than 4 and it shakes their way of considering the world around them. Mention the existence of ghosts or leprechauns to most accountants at a dinner party and you will not see the face of someone who is puzzled, curious or confused. You will see the certainty of one who knows that such aberrations just “do not foot” (that’s accountant-speak for “add up”).

It is the experience that separates one service provider from another.

Leaders with number logic as their lens clearly understand that without customers, their organization would not exist. But, governed by the world of the concrete, they treat service much like they would a product. With the object (the root word for objective) world, quality is built into the offering and governed largely by its maker. Granted, the market plays a judgment-making role in quality determination. But, this happens after the product is built, not while it is being made. Customers do not come into the factory and influence. Thus, number-paradigm leaders put a spotlight on the service outcome, not on the service experience. “What do you mean customers are upset by their banking experience? Our statements are accurate and our tellers efficient!”

Missing from their understanding of the service promise is the customer experience part of the equation. Both outcome and experience are important in the customer's assessment. But often the outcome is, to the customer, simply the ante—the givens of the service provided and not what distinguishes it.

McDonald's is an excellent hamburger factory, one of the best in the world. The CEO can no doubt tell you the average speed of service per car, the precise amount of time required to make a Big Mac, the pace of the credit-card transaction versus cash—essentially, the arithmetic of the service encounter. These are all metrics almost completely controllable by McDonald's. But the customer is evaluating their trip to Mickey D's based on the personality of the server, the hospitality of the setting and the respect they are shown throughout the entire process. These are metrics controlled jointly by McDonald's and the co-creator of the experience—the customer. The organization may control the selection of servers and the orchestration of all the details in the setting and process, but the customer determines if the entire experience made the grade expected.

When organizations rely on professional shoppers to assess the experience of the customer (rather than asking the customer directly), they exhibit a product-making mentality. Mystery shoppers are actors trained to watch for adherence to standards, much like the quality control unit does in a factory. Real customers have a broader view, a memory-making perspective, which considers both outcome and experience.



## The Machine Paradigm Takes Service Out of Customer Service

We were participating in a panel discussion at a conference of Fortune 100 CIO's. One senior leader from a major bank asked us, "How can we maximize the profitability and efficiency of our call centers while minimizing the customer's involvement?"

Something about the question left us momentarily confused. One of us said, "You want to remove all of the service out of customer service?" He responded, "Actually, I'd like to take most of the customer out as well!"

The fundamental characteristic of the leaders with machine logic is their belief that all problems can be solved with technology. The quest is to take the people out of the mix since they are non-programmable, unpredictable and an aberration in machine-like exactness. Technologists view customer service as a way to let automation and self-service do the work

Self-service and automation have had a positive side. Shifting the lion's share of the work of the service experience to the customer has lowered operating costs. With the rising cost of wages for people, cost-saving is accomplished by taking people out of the service equation. The shift has freed up people to be used in roles and functions truly requiring a human touch. Self-service has also made customers more self-reliant as "do-it-yourself" has replaced "I'll take care of that for you." Learning to fend for oneself can trigger less dependence and far more customer competence.

But, there is clearly a downside to taking service out of customer service. Remember the Wendy's "Where's the Beef" advertisement? The final line in the ad is a prophetic one: "I don't think there's anybody back there." It epitomizes the potential one-sidedness of self-service. Before self-service, we could influence, critique, affirm and help guide the service experience as it unfolded. The service deliverer could adjust, respond, slow down or leave us alone. It all seemed quite fair. Now, without

the capacity to quality-control it in the moment, customers are more cautious and skeptical of the value they receive. It explains why 63 percent of e-commerce customers rate “live web chat” as the most satisfying channel. Live chat says that self-service can be quickly transformed by the customer into full service if the customer determines “there’s no beef, just a very big bun.”

## Learning to fend for oneself can trigger less dependence and far more customer competence.

### Putting the Customer Back into the Service Covenant

Customers (and employees) reside in the paradigm of people. The realm of people is a paradigm that recognizes humans can be logical, but also illogical and emotional. People can be rational, but also irrational—especially when they feel the anxiety of uncertainty or disappointment or the apprehension that comes when what is predicted does not match what is expected. Customers come into a service experience with expectations shaped by past disappointments and successes, perceptions shaped by sensory and interpersonal inputs, and practices influenced by a lifetime of value-shaping events and habit forming tensions.

The numbers world has the predictability of the scientific method—something matters only if it is concrete or can be logically proven. The machine world enjoys the certainty of outputs that follow what is programmed. But, the people world is squashy, irreverent and chaotic. It cannot be controlled, only managed. It cannot be herded, only influenced. And, it defies the serenity of a boardroom or the tranquility of a formula. Great leaders in organizations that make people logic a part

of their DNA are often effective at instilling pride, encouraging high performance, nurturing passion and stimulating innovation.

What makes Southwest Airlines, Zappos.com, Four Seasons Hotels and Enterprise Rental make the “best service provider” lists year after year? They have created and sustained cultures that embrace the power of the three-legged stool—people, customers and financials. Take care of people; they will take care of customers. Take care of customers; they will take care of the bottom line. While we all know that price, product, location, strategy, technology, financial management and the like play an integral role in growth and profits, what keeps the service-champ leaders up at night the most is keeping the culture customer-centric. It starts with understanding the experience side of the service covenant.

Take a look at award-winning Zappos.com. They took a simple business—online buying of apparel—and added the experience enhancers that make them the talk of the neighborhood (and cyberhood). Sure, you can do all your buying without communicating with a soul. But, every Zappos web page has a deliberate invitation to interact. And, when the customer clicks to talk, they get over-the-top attention, customized communication and a live rep who wants to be your new best friend. It is the perfect blend of self-service with full service that respects the customer while bolstering convenience and cost-savings. And, how has the market rewarded them? Their profits went from zero when they started to over a billion dollars ten years later.

Take care of people; they will take care of customers. Take care of customers; they will take care of the bottom line.

## The Tenets of a Healthy Service Covenant

In his new book, *Bold: How to Be Brave in Business and Win*, author Shaun Smith describes the strong correlation between the core values of the leaders and the core values of the enterprises they lead. Southwest Airlines CEO Gary Kelly embodies the fun-loving character that flight attendants model on board. Zappos founder and CEO Tony Hsieh conveys the strong allegiance to leading with purpose that call center reps show in how they serve with purpose. And, the warm, yet refined elegance found in the Ritz-Carlton Hotel experience is echoed in the style of President Simon Cooper.

Leaders that model the tenets of a healthy service covenant create and sustain cultures in service organizations that help them become the exemplars of great service.

### Always Tell the Truth

The Delta regional jet was packed. As the plane backed away from the gate, the flight attendant began her ritualistic safety spiel about seatbelts, sudden turbulence and smoking. She ended by saying, “The flying time to Grand Rapids will be two hours. . . no, it will be an hour-and-a-half. . . no, actually, I don’t know.” The cabin erupted with laughter and applause. What jolted the half-asleep plane-full into cheering? Unscripted, raw truth-telling. We all loved her total candor and confident authenticity!

The truth-seeking component of the healthy service covenant is that which values candor and openness. It is the dimension that honors authenticity and realness. It includes a commitment to a conversation with customers rather than unilateral action. It begins with asking for input. It continues with enlisting others in problem resolution rather than positioning yourself as the sole “answer person.” It involves operating with the faith that wisdom lies within us all and that by tapping the collective brainpower of customers and associates, the organization is stronger, more responsive and more adaptive to the ever-changing requirements of customers and employees.

## Close the Trust Gap

A healthy service covenant is one that closes the trust gap. We live our lives on promises. From the time a child can grasp the concept of “cross my heart and hope to die,” there is a forever realization that anxiety can only be reduced through proof of trust while waiting for a promise to be kept. The trust gap is the emotional space between hope and evidence; between expectation and fulfillment. Trust is the emotion that propels customers to the other side of the gap.

The manner in which an organization manages the trust gap drives every other component of the service covenant. As one frequent flyer said, “No matter how friendly the flight attendant, how delicious the meal or how comfortable the seat, if the plane lands in the wrong city or four hours late, I am not a happy camper.” Granted, great service recovery can turn an aggrieved customer back into a satisfied customer. But the residue of betrayal will leave a disappointed customer perpetually on guard for the time a letdown re-occurs

The trust gap is also closed by demonstrating trust in customers. Airport concession stores sometimes put the morning newspaper purchase on the honor system. Instead of standing in line just to buy a USA Today, customers pick up a copy as they put a dollar through the slot in the money container above the papers. When store operators are asked about the end-of-the-day shrinkage, they will tell you that, while they may lose a paper or two, it is more often due to customers’ accidentally picking up two copies instead of one. The trust practice benefits the in-a-hurry customer trying to catch a flight. And, it helps the store to manage efficient traffic flow with customers buying more items or items less common than a newspaper.



## Create a Great Experience

A healthy service covenant is one biased toward creating great experiences. Today's customers want sparkly and glitter; a cherry on top of everything. They want all their senses stimulated, not just those linked to the buyer-seller exchange. Features have become far more titillating than function; extras more valued than the core offering. It means that attracting customer loyalty today requires thinking of service as an attraction. Examine how Cabela's and Bass Pro Shops decorate the service experience. If your enterprise was "choreographed" by Walt Disney World, a Lexus dealership, MTV or Starbucks, how would it change?

Think of the service experience as a box of Cracker Jacks. What can be your "free prize inside"? The power of surprise lies in its capacity to enchant, not just entertain; to be value-unique, not just value-added. Service innovation works best when it is simple and unexpected. Hotel Monaco puts a live goldfish in your hotel room; Sewell Infiniti dealership programs in your radio stations from your trade-in and lets you discover it; servers at Macaroni Grill introduce themselves by writing their name with a crayon upside down (right side up to the customer) on the butcher paper tablecloth.

## Invite Customers to Be Partners

Customer participation is a core component of a healthy service covenant. Harley-Davidson created the Harley Owners Group (HOG) as a forum to bring Harley loyalists together for education and recreation. Build-A-Bear Workshop with their interactive build-a-stuffed-toy experience has grown to over 400 stores around the world in less than 15 years. Bose sends their head phone customers a stack of courtesy cards to give out to other people who inquire about their head phones—cards containing every conceivable way to contact Bose.

Threadless.com invites their website community to vote on the coolest t-shirts designed by fellow amateurs. The winning entries become their product offerings, providing great exposure for budding designers and a sense of ownership by the community. Jackdaniels.com has a fan club called the Tennessee Squire Association. They asked Squires in Texas to vote online for their favorite color (red, white or blue) for the Jack Daniel's-sponsored race car to run in the annual Texas 500. Mountain Dew created a user-generated movement to launch a new product. The process (called Dewmocracy) involved more than 3 million customers in various phases of the design, development and marketing of a new drink ultimately called White Out. Collaboration is the core of the service covenant.

## And, Nurture a Community

Social media like blogs, Facebook and Twitter provide concrete evidence that customers are changing the way they define marketplace. In some ways the Internet is a return to the old-fashioned village. While the new village is a global community, it nevertheless has many of the features of the village of yesteryear. In a small town, merchants knew you and catered to your specific needs. They acted on history, patterns of previous purchases. They'd even open the store after hours if you needed something. Over the last fifty years commerce has become distant, impersonal and one-size-fits all as the service covenant has altered. The Internet in general and social media in particular have helped connect customers with businesses in ways that are more personalized, open, around-the-clock and valued.

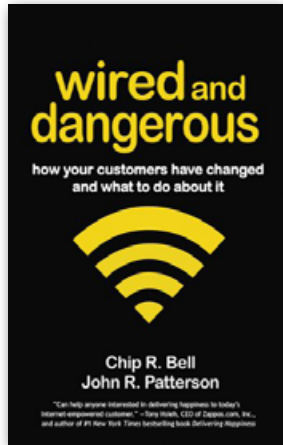
Another feature of the old-fashioned village was generosity. The village is where the concept of "the baker's dozen" originated. Kids got a free taste at the candy shop; merchants gave away "secret recipes," and adults got a "take it home and try it" assurance behind products. There was no need for a written "money-back guarantee"—the merchant was the guarantee. The closeness of shared space required varied means to maintain relationship balance. Customers and merchants relied on neighborly practices. A spirit of abundance was a way to start and maintain valuable relationships.

Like the old-fashioned village, the Internet is a world under a microscope. Value must be real and look real. The eye candy of websites must be interesting, easy, fast and imaginative, or the cyber traveler will only be a drive-by window shopper or a targeted bargain hunter with little intent of sticking around (called being sticky) or coming back. It makes generosity—providing extra to value, not thinking of value as tit for tat—an important means to ensure a genuine partnership.

How can “B-flat” lovers be encouraged to pick up a hammer when carpentry is involved? Asking leaders to abandon their affinity for logic, order and rationality is like hoping a zebra will change its stripes. Great leaders add to their leadership prowess by embracing new perspectives and experimenting with new practices. Just as innovative leaders surround themselves with mavericks and unconventional thinkers, leaders in pursuit of customer-centricity spend quality time with customers. They invite customers to key meetings to ensure their perspective is included. Instead of prototyping only in the lab, they take pilots to the field for the inclusion of customer beta groups.

When CEO Bill Marriott was asked by a group of Marriott hotel managers whether the company’s guest satisfaction index scores keep him up at night, he answered, “No, but their comments do.” It spoke volumes about a leader who understands what keeps the service covenant uncorrupted and healthy, a leader who stops guests in the lobby to inquire about their stay and solicit their ideas for improvement. Sam Walton summed it up well: **“There is only one boss. The customer. And he can fire everybody in the company from the chairman on down, simply by spending his money somewhere else.”** 📖

# info



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