



It's a Matter of Trust

Do your customers trust your company to act in their best interests? It is a question not often formally asked of customers. The response to this question is assumed. “Customers trust us. Why else would they do business with us?” Based on recent engagements, it is a question you should formally ask your customers. Their responses may surprise you and may also make a difference to your company’s bottom (and top) line.

Trust and Loyalty—What Is The Connection?

Intuitively, managers know that it is better to have customers that trust them more than less. In this white paper, we focus on understanding the impact of creating a high level of customer trust on a company’s sales and perceived value. Since trust, we think, is derived from experiences customers have with a supplier, we will identify those areas that are critical to enhancing the level of customer trust in your company.

The connection between trust and loyalty is a debated topic by marketing professionals. There are several noteworthy articles that shed light on this question.

The first is from work done by Frederick Reichheld and Earl Sasser (“Zero Defections: Quality Comes to Services”, *Harvard Business Review*, originally published in 1990; updated in 2000). Through their research, they showed the connection between satisfaction and loyalty. One of the clear messages from their work is that just having customers who are “satisfied” is not good enough. Customers must rate their satisfaction very high in order to come back and be repeat customers. In short, to create loyal customers you must aim for “A+” customer service.

The second piece of research comes from the *Journal of Targeting, Measurement and Analysis for Marketing* (“Customer Satisfaction, Customer Retention”, *Journal of Targeting, Measurement and Analysis for Marketing*, London, September 2003, Chatura Ranaweera and Jaideep Prabhu). This research showed that satisfaction and trust have strong positive associations with both customer loyalty and word-of-mouth (WOM, the degree to which customers positively talk about or refer a vendor). They also discovered that trust was only slightly less important than satisfaction as a driver of WOM—something very important to most all companies, especially industrial companies since the customer universe is often relatively circumscribed.

One of the clear messages from the work of Reichheld and Sasser is that customers who are “somewhat satisfied” are not necessarily loyal.



The Background

This white paper is based on a client engagement. The client, The Power Company (a disguised company) manufactures and sells major industrial equipment which is used in a variety of industrial applications. The often harsh nature of the environment in which the equipment is used means that significant amounts of parts and service support are needed. Moreover, for most of the customers, the equipment is “mission critical” so providing timely, accurate, and effective support is essential. The parts and service support is provided through a network of outlets.

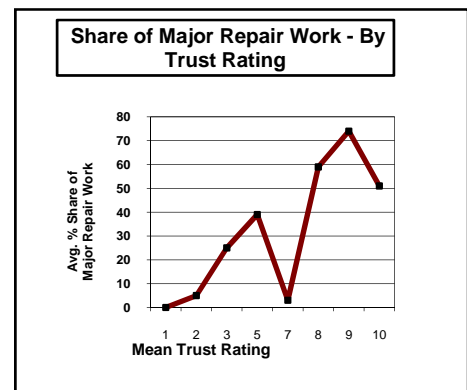
The Daniel Group was engaged by the client to identify steps needed to improve parts and service (Product Support). Since the market for the equipment sold by the client was becoming more competitive, providing top notch product support was critical to enhancing customer value, improving profitability and increasing revenue.

The research process included in-depth telephone interviews with randomly chosen customers of The Power Company. We asked a number of questions about how the service and parts organization was viewed as well as questions about purchase behavior. For example, we asked customers to rate the degree to which they trusted the supplier to act in their (the customers) best interests when performing service and repair work (1 to 10 rating scale with 10 meaning they completely trust the supplier to act in their best interests). We also asked them to rate the perceived value of the supplier’s products and services. The last question of note was to estimate the share of service and parts business given to the supplier (share of wallet). Let’s see what we learned!

Trust and Share of Wallet: The Bottom (and Top) Line

Intuitively, the connection between trust and share of “repair wallet” is obvious. Consider the magnitude of the impact:

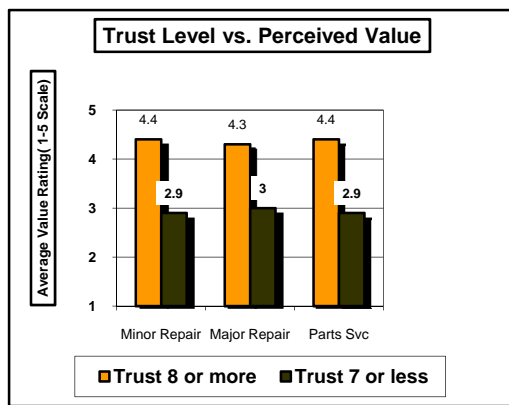
- On average, The Power Company captured a **60%** share of the major repair business from those customers who rated their trust level more than 7 (At The Power Company, after-sales services are split into three areas: Minor repairs (e.g., regular maintenance); major repairs (e.g., more extensive repair work); and parts. If the rating was less than 7, the share of major repair business **dropped to 22%**. In this particular business the difference between the shares is as much as several hundred thousand dollars per year per customer.



- The Power Company had a number of branches through which it provided product support. There were significant variations in the trust rating from branch to branch. The financial performances of the branches with higher customer trust levels were consistently better than the other branches. Keep in mind that the sample is small so firm conclusions are difficult to draw. It does raise an interesting question about connections between trust and financial performance.

Trust and Perceived Value:

Not surprisingly, there is also a connection between the level of trust and perceived value of the products and services. The chart below illustrates the point quite clearly.



For customers who rated The Power Company more than 8 on the trust scale, they also rated their perceived value significantly higher. For example, on major repair work, those customers who rated the trust level 8 or more, rated the perceived value as 4.3 (1 to 5 scale with 5 meaning clearly superior to competition). For those customers whose trust rating was 7 or less, the perceived value was 3.0.

The degree of trust a customer places in a supplier impacts perceived value. The greater the trust, the more value a customer sees from a supplier.

What to Do?

There are lessons to be learned and applied to your business. Intuitively, most of managers know that trust is important to a variety of business outcomes. Yet, we find too few managers who pay serious attention to how much trust their customers really have in them. We want to offer suggestions regarding what you can do to improve trust, satisfaction, and, ultimately, your company's bottom line.

1. Understand customer expectations. Think about it. When you buy most anything from a supplier you have a set of expectations. Those expectations are formed from advertising, past experience and word-of-mouth. They are also formed as a customer "experiences" the buying relationship with the provider. Customers are evaluating the actual experience with their expectations of the experience. When there are disconnects between expectations and the actual experience, satisfaction and trust are impacted.



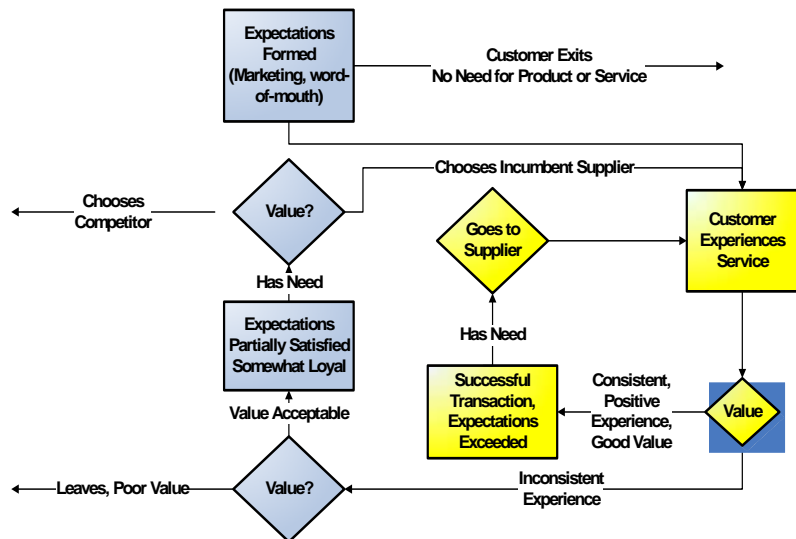
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Formally ask your customers what they expect. Make sure you understand what they really want from you. Sometimes the expectations are rather pedestrian! They may not expect a flashy web site but they do expect to receive a bill that is accurate and understandable.

2. Understand the customers' experiences. While a customer is buying goods or services, they are also experiencing a process when they do business with your company. Understand what that process looks like. Draw a map outlining what the customer experiences as he does business with your company. You might be surprised at what you see.

Consider the following questions:

- o Is it really easy for customers to do business with your company? One recent personal experience illustrates this point. I was ready and willing to purchase new phone services but the convoluted telephone system and inability to quickly make the purchase caused me to look elsewhere. Shop your own business as a customer would. You might be surprised at what you find out.
- o Where are the points in that process that can most affect customer expectations? These are those critical "trust" points. Sometimes those points seem small and inconsequential. For example, when customers call in, do they first have contact with someone who is both knowledgeable and friendly? Our experience suggests that the first point of contact can have a great deal to do with setting customer expectations, both positively and negatively.
- o Do you have metrics that determine the degree to which customer expectations are being met? Obviously, customer satisfaction surveys are helpful to a degree. Research shows that even satisfied customers may not be loyal. Consider other metrics. For example, monitor customer purchase trends—constantly. If a customer's purchasing pattern changes dramatically, find out why. Were expectations not met?





3. Is your company's value proposition clear? Can employees explain it to customers? There are value propositions throughout a company (or should be). A clear value proposition answers the question as to "why" the customer should buy a product or service or even do business with your company. To illustrate why this matters, I will share a recent experience. I was getting some maintenance done on my car. The dealer is one that I would rate quite high on the trust scale. When I brought the car in for some regular maintenance, he suggested an additional maintenance service that should be done AND why it was needed. His effective approach resulted in an additional \$75 on the total bill. Another example was again with my car at another service provider. The technician suggested an additional service but could not explain what the real value to the additional service was. I thought it was nothing more than an attempt to increase an already too large service bill. I declined and my medium level of trust in this company was further lowered.

4. How do you handle customer problems? My first job out of business school was in sales. In the company's training, they repeatedly made the case that a customer problem often represented a sales opportunity. As a "green" salesman, I thought they were wrong. I quickly learned differently. Many times, if you handle the upset customer effectively, there are opportunities to not only sell the customer but to reestablish and even enhance the customer trust level. Think about how customer issues are handled. Are they viewed as "problem" customer, or customers with problems? There is a difference.

In our research, we have found many things that inhibit the development of a strong relationship of customer trust. Most of the time, these are seemingly "little" things such as unclear invoices and repair statements or not communicating with the customer when needed repairs exceeded the original estimate. Sometimes it was just not explaining what repair work was needed and why.

A Modest Proposal:

The question of trust applies in most any market situation. Ask your customers if they trust your company to act in their best interests. See what they say. Listen for the expectations they have of your business. If those expectations are not being met, ask why? Remember, meeting those expectations at every point of the customer's experience is a sure way to create a stronger company. It is a question of trust. It is also a question of the bottom line!

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