

Part 2: Do You Know Your Customers?: 2 Apr 05

By Wilson Aw

A few pertinent case studies were cited in earlier article on the vagaries of not anticipating fully the impact of customer reaction when a company or institution introduced changes – be it pricing, product features or procedures.

This article offers a fresh and analytical view of what can be avoided or done to improve the odds of success.

1st Tenet: Customer is King. For now. Customers are accustomed to receiving many services free. No surprise then that complaints, whether reasonable or otherwise, are never in short supply, when any kind of incremental charges or changes are introduced, improvements included.

Watch Factor: No free lunch - industry structure cannot support altruism; shareholders demand inflation-, risk-adjusted returns from their investments in the companies. However, it is not easy to start charging for something that is hitherto free or with very low nominal fees. Service providers need to convince with justification for the increased cost.

2nd Tenet: Puss in boots?. Fatal mistake. Service providers often cite 'justification statistics' such as an incremental cost of only 30 cents a day for a \$10 monthly fee. This invariably will not go down well with the customers. First, it appears defensive as it rings loud "don't complain, it works out to only 30 cents". Second, it insinuates that customers do not know simple maths. Third, most importantly, the calculation may be flawed. Why? If the customer uses the service only once a week, his cost per usage is \$2.00+, not 30 cents. If he uses it for 1 minute each time, it is \$2.00+ per minute. You can never phantom the permutations of how these calculations can go through the minds of the customers.

Watch Factor: Be sensitive to how customers will react. Do not judge others by how you will judge the situation yourself.

3rd Tenet: The Cost of Keeping All Customers happy? A fallacy. You cannot aim for no defects - bound to have customers who will not be satisfied with whatever you do. It is common to have a single customer who can sway the views of the other customers on the fence. The Voice of Customers is never equally weighted. The Link REIT launch in Dec last year in Hong Kong SAR was shelved due to a law suit started by a single customer. The cost? Billions HK\$. Cost of keeping all (or one) customer(s) happy? Justified? It is the principles...

Watch Factor: Anticipate, anticipate, anticipate, much like playing chess. Cover all moves that can potentially go materially (not always in monetary terms) wrong. Line up the public relations brigade. We are going to war.

4th Tenet: Art of War. Sun Tzu said "Know yourself, know enemy, avoid defeat. Know weather, know terrain, complete victory". There is much to be done. Using Competitive Strategy and Industry Structure framework by Michael Porter (forces of Substitutes, New Entrants, Customers-Supplier balance of power, Competitors Rivalry), or simple S.W.O.T. analysis is a good starting point. Carrying out a focus group or if budget and time permits, a trial with test cell with quantitative response analysis and modeling will ensure "representative" customer reaction, service offering fine-tuned before the official launch to the entire customer base. Campaign testing and data mining has become common. From risk perspective, we can plot a Normal distribution with mean (average) customer reaction (impact) in the middle,

spreading out to outliers (vociferous customers) in the fat tails. Often, taking care of the risks that outliers pose is half the battle won.

Watch Factor: This is war, be prepared.

The writer is a Vice President at a Singapore bank and a certified Financial Risk Manager, with previous experiences developing strategies for retail banking and e-business. The article is contributed in his personal capacity.