

An extract of a paper outlining the findings of the Promise Index 2006

Mind the Gap

Promise Corporation is a consultancy aimed at helping organizations make and keep promises. The core idea driving Promise is the belief that corporations that think of themselves as promise delivery systems, rather than just financial delivery systems, will be the winners in today's economy.

Every corporation concerned with growing the top line pays attention to its marketing practices and the experience of its customers. However, the two are generally managed more or less independent of each other. The marketing department (promise makers) spend millions building up a brand's image, developing the highest possible promise to get the customer to make the purchase. Down the hall, another set of employees are working on delivering the 'most profitable' customer experience (promise deliverers). A few more millions are then spent on tracking these two efforts separately. But very little attention is ever given to looking at the alignment between the marketing message (promise made) and the product or service delivery (promise delivered).

This paper explores the synergies that can be obtained by aligning the promise makers and the promise deliverers in a corporation. These synergies are real and significant. Our Promise Index study shows that companies with a strong brand image and experience can see their revenues eroded by what we have called a negative gap: when consumer expectations aren't met (reputation exceeds customers' experiences). Similarly, obtaining a positive gap

(customers' experiences exceed reputation) can multiply revenues.

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The following insights have been drawn from a three year study of the UK's top 100 contact brands (brands where people and service are an important part of the relationship) and a number of consulting assignments where the 'promise' philosophy has been applied and tested. A set of tools have been developed, that allows managers to analyse the alignment between a brand's marketing and delivery, in order to attain superior financial results.

Keeping Promises: More important today than ever

Less than ten years ago, corporations had little incentive to pay detailed attention to the interaction between the promises they made to the consumer, and their delivery. In fact, over-promising to the consumer may have been a profitable strategy as it raised demand. However, some key developments have changed this. For one, the internet has empowered the consumer to find out the 'real' value of a product or service, rather than the one the company has promised. If the consumer feels misled, he can then let the world know at

the click of a button. Furthermore, a growing distrust of the 'corporation' has encouraged consumers to actively search out false promises.

The improvement in the quality of products and intensifying competition over the last ten years has given the consumer plenty of opportunity to change brand when disappointed. This has been coupled with an overarching societal shift from dependency to autonomy that has given the consumer the confidence to act both with his voice and with his wallet if he feels let down.

To make matters worse, the operating environment for managers has also changed, making it more difficult for them to respond to this new consumer environment. The demand for short term returns by the stock market encourages managers to over-promise: an easy win for short term revenue growth, a disaster in the medium and long term.

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Measuring the Promise Gaps

Observing these trends, our intuition was that corporations that see themselves as promise delivery systems rather than simple financial delivery systems will attain superior results. In the quest to quantify the value of promises, we undertook a three year research programme. In 2004, 2005 and 2006 we asked 1,000 UK consumers two questions on each of the top 100 UK contact brands:

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Taking everything into account – quality, service and value for money –

Please say how good or bad you think the image and reputation is of this brand?

Thinking about your most recent experience of the brand, please say how good or bad it was? – 11 point scale

Simultaneously, revenue, market share and industry dynamics data was collected on each of these brands. The research focused on contact brands partly because levels of dissatisfaction are much higher than they are for product companies (ACSI survey), and partly because there is a relative lack of effective metrics to support contact brands. An intuitive and effective metric that measures the far more elusive and less tangible aspects of service, culture and brand would be a far bigger breakthrough.

From the research, two powerful metrics emerged that correlated with future revenue growth: A brand holding a negative gap (i.e. doesn't meet customer expectations) grew at an average of 2.8% in 2005 and 2004, while a company with a positive gap (exceeding customer expectations) grew at an average of 10.5%.

In addition, brands with positive gaps grew about 150% faster than brands with no gaps (even when adjusting for variations in image and experience scores). This means that corporations can see the returns from a high-performing product with a great brand image slashed (literally) because it does not meet customer expectations. But they can see their returns multiplied by exceeding them.

And this is not just a problem for the few. 25% of the UK's top service brands have a negative gap at any one time and 66% have no gap at all, meaning they are leaving millions on the table for the 9% of companies who have developed a positive gap.

The results have done far more than confirm the importance of coordinating the marketing message with reality. Our insights have delivered a set of tools that can:

- Measure consumer expectations and experience of a brand, and provide a comparison of the two (with a direct link to revenue growth) using two intuitive measures
- Manage consumer expectations and experience to obtain superior revenue growth
- Benchmark a brand against the competition, which among other things serves as an early warning system for the development of negative gaps
- Help make decisions about whether resources should be invested in building image or experience, by providing a financial value on the promise gaps: 'should we boost our advertising budget or reward customers more?'
- Guide a discussion on the effectiveness of marketing practices: 'are we over or under promising?'
- Provide a framework for discussion on how to avoid a negative gap and how to develop a positive one and maintain it.

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Exceeding Expectations: Positive Promise Gaps

Take Mazda as an example. Up to 2004 Mazda gradually but consistently improved its customer experience. By 2004 the brand had won the second place in the 'What Car' reliability survey and won 'Best After Sales Value' car of the year. Several of its models had also picked up the Car of the Year Award. Mazda's image strategy, however, did not raise consumer expectations to dizzying heights. In fact, they hardly raised them enough.

Their positioning: "the soul of a sports car" supported by the "Zoom Zoom" message, was hardly credible, leaving consumers with low expectations for the brand. The interesting bit is that Mazda's expectations + experience score (the measure correlated to revenue growth) were average for the UK auto industry. But it was the fact

that they were exceeding expectations (positive gap), that drove word of mouth recommendation and auto reviewers to talk in amazement and awe about the brand. In 2004 (as our study predicted at the start of that year) Mazda had become the UK's fastest growing car company with sales growth of 26.11%.

The key strategic requirement in such cases is to spot the negative gap in its early stages and tackle it before it impacts on large number of customers.

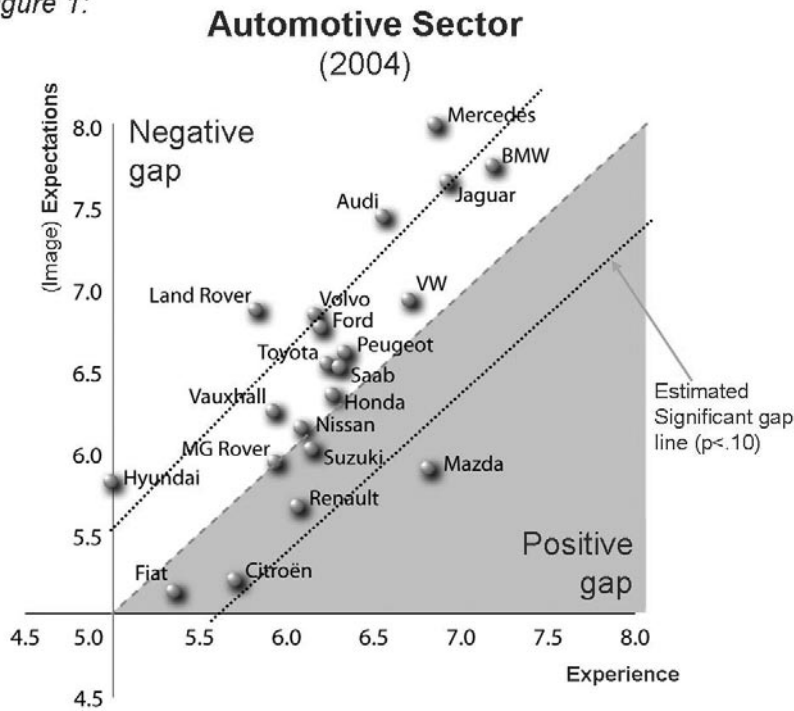
Disappointing Customers: Negative Promise Gaps

The performance of Mercedes, on the other hand, shows the detrimental effects of a negative gap. Mercedes had always been perceived as a vehicle of "Quality, Prestige, Style, Freedom, Performance and Comfort" (Mercedes' official positioning statement). In 2003/04 careless outsourcing of technical developments and a failure of the computerized braking system forced recalls. Furthermore, Mercedes' service proposition started to lose its prestigious edge. While in 2004 Mercedes' experience score fell dramatically, its combined expectations and experience scores were still among the highest in the industry. So why did Mercedes become the worst performing brand of 2004 in the UK (excluding the doomed MG Rover), with sales falling 12.5%? The reason is its negative gap – it consistently disappointed consumers, driving excessive negative word of mouth and bad reviews. The key strategic requirement in such cases is to spot the negative gap in its early stages and tackle it before it impacts on large number of customers.

Sticky Negative Gaps

What is striking about Mercedes is that its negative gap persisted for several years after its engineering errors had been redressed (Mercedes has just closed its gap). Why didn't consumer experience scores adjust upwards? Or expectations adjust downwards? Our study revealed that brands that have built their reputation over extended periods of time are particularly vulnerable to long lasting negative gaps.

Figure 1:



cannot become complacent about a positive gap. To sustain a positive gap the brand needs to be regularly fed with new innovations built to exceed customer expectations in a cost-effective way.

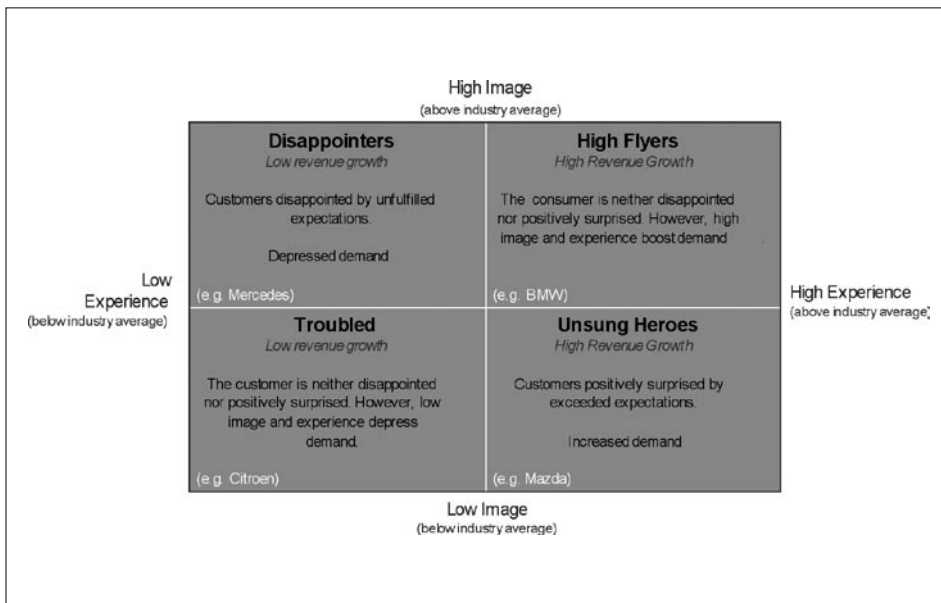
Looking at your organisation through a lens of promises

There are two key tools we have developed to help managers think about their brand promises.

Firstly, when looking into promise alignment, it is meaningless unless benchmarked against the competition. This table shows the auto industry's reputation and experience scores for 2004. If Citroen looked at their scores in isolation and saw a small positive gap, they might conclude that they are doing reasonably well. But when benchmarked against the competition, consumers' experiences and expectations of the brand are both low (Figure 1).

Furthermore, benchmarking the promise mix against the competition acts as an early warning system to the deadly negative gap.

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This is also apparent with brands such as British Telecom, British Airways, Marks & Spencer and HSBC. Brands with long built reputations need to watch the negative gap very closely:

expectations are sticky for these brands and take a long time to adjust downwards.

Slippery Positive Gaps

Positive gaps on the other hand are not only much less common (11% of brands), but no brand managed sustain a positive gap for all three years. This is because consumers quickly get used to improvements and adapt their expectations upwards. Mazda closed its gap in 2005 because consumer expectations moved upwards. We saw the same occur with brands such as Amazon, Easyjet, and Hilton. This highlights the fact that companies

Strategies to manage the Promise Gap

Finally our study has identified four positions a brand can find itself in. All brands fit into one these positions highlighted in the matrix on the left:

For each segment there are clearly defined strategic options. For example: both 'High Flyers' and 'Troubled' should define the greatest contributors to experience and incrementally manage upwards, allowing image to lag behind. Alternatively, they could focus on breakthrough innovations, which can lead to substantial (simultaneous) jumps in image and experience scores. The Prius did just that for Toyota.

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A 'Disappointer' needs to close its negative gap with urgency. It could do so by focusing its efforts on building critical experience points. However, the effect of an improved experience may take years to trickle back to the customer (as it did with Mercedes), in which case management could consider a more controversial approach: managing expectations downwards.

Those fortunate enough to be in the 'Unsung Heroes' category should not be complacent, and focus on finding new cost effective ways to build a positive gap for the future.

So, how has your brand fared in the latest Promise Index?

For a copy of our full paper or to hear more about the findings in the Promise Index for your brand and to see how your brand has fared against your competitors please contact us we would be delighted to meet you and present our findings.

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