ANGER MANA

IF YOU REALLY LISTEN TO YOUR CUSTOMERS, MAYBE THEY WON'T TURN ON YOU.

IT HARDLY MATTERS HOW MANY DISCUSSIONS AND COMPUTER SIMULATIONS AND RISK REVIEWS YOU UNDERTAKE: MISTAKES ARE INEVITABLE. FORECASTS TURN OUT WRONG, NEW PRODUCT LINES FAIL, CUSTOMER INITIATIVES MEET RESISTANCE, PRICE INCREASES BACKFIRE. NOTHING NEW ABOUT ANY OF THIS.

Except that a massive power shift has changed the equation. In a harsh, unforgiving era that has consolidated and unleashed the awesome powers of social media and a twenty-four-hour news cycle, the public penalty for a blunder that incites a customer revolt has multiplied exponentially. The kind of business move that used to generate mild grumbling and then grudging acceptance now brings immediate denunciations, viral social-media protests, front-page headlines, and the worst fate of all: being made an example of, as a cautionary tale.

Just ask Netflix, Verizon, and Bank of America, which last year faced unexpected customer wrath after policy changes that turned out to be stupendously unpopular. All three companies quickly surrendered and reversed course in ways that observers say have empowered and emboldened consumers for future battles—and similarly bloody victories.

It's critically important to understand what happened to the Three Stooges of 2011 and how your company can avoid similar humiliations. After all, according to a January report from 24/7 Wall St., Bank of America and Netflix—the latter long revered by customers—are now among the "10 most hated companies in America."

Worse, last year's PR debacles represented more than simple bad decisions—they stemmed from a lack of empathy, a failing shared by most companies. In fact, experts from a range of disciplines agree, hardly any companies truly work to empathize with customers. "I'd say it's less than 10 percent," says Anne Morriss,

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GEMENT

BY JOHN BUCHANAN

managing director of the Cambridge, Mass.-based Concire Leadership Institute and co-author of *Uncommon Service: How to Win by Putting Customers at the Core of Your Business*. "And that's why truly good service is so rare."

Ken Favaro, a senior partner at Booz & Co. in New York, shares the view that a disregard for customers lay at the foundation of all three of the 2011 disasters. "Executives at the three companies weren't thinking about their customers," he says. "That doesn't mean they're stupid. It just means there were other things on their minds when they made these decisions, and those things were treated as a higher priority."

The best example: Bank of America, which sparked a customer revolt when it announced a new $5 monthly fee to use debit cards. "B of A is in a struggle for its life," Favaro says. "It needs to build up its capital position, pronto. It cannot raise capital, so it needs to generate it; if it doesn't, it's toast. So you can imagine how, on a day-to-day basis, they're trying to get more fees through the door. And that means in this instance, they weren't thinking about their customers. They were thinking about survival."

As a result, Morriss says, "they have been listening to analysts, not listening to customers."

And for that, the company faced waves of anger and, a month after its announcement, rescinded the $5 plan. Americans at large—including millions with no dealings with B of A—saw the bank's move as an add-insult-to-injury example of unmitigated greed by a company that taxpayers had bailed out only a few years earlier. By contrast, Verizon got off easy: Its proposed $2 bill-paying fee drew anger from only that company's customers.

CUSTOMERS 3, COMPANIES 0

Netflix faced the same distressing results as B of A: plunging share price, fleeing customers, and wince-worthy headlines along the lines of "Has Reed Hastings Killed Netflix?" But few questioned the company's strategic move, based on the inevitable future of its business away from DVD rentals and toward streaming video-on-demand. The failure was in the execution—remember Qwikster?—and communication with customers.

There were three reasons for the blowback, Favaro says. "The first is that sometimes the hardest part of strategy is your timing. The second lesson is that customer reaction is hard to know a priori, so you have to be very agile and be prepared to take a U-turn if you make a mistake. And the third lesson is that what customers actually do can be quite different from what they say they will do. And that's one of the reasons why it's hard to know what they will do."

Robert Mittelstaedt, dean of the W.P. Carey School of Business at Arizona State University and author of *Will Your Next Mistake Be Fatal? Avoiding the Chain of Mistakes That Can Destroy Your Organization*, is blunter in his assessment of Netflix and its two high-profile co-defendants in the court of public opinion. "It's a matter of arrogance," he says, "in thinking they really understood their customer base—and assuming that they understood them without actually talking to them."

NOTFAVORABLE

LESSON 1: Sometimes the hardest part of strategy is your timing.

LESSON 2: It's hard to know a customer's reaction, so you have to be very agile and be prepared to take a U-turn if you make a mistake.

LESSON 3: What customers actually do can be quite different from what they say they will do.

The issue runs even deeper than that, says Jon Picoult, a Simsbury, Conn.-based customer-relationship consultant. "Many companies and their executive management have become tone-deaf to customers," he says. "And to an extent, that's an issue that a lot of companies have struggled with through the ages. What's different now is that it has become more pronounced as a challenge, because the balance of power between companies and consumers has shifted as a result of the power of the Internet and social media."

And as a result, adds Atlanta-based PR consultant David E. Johnson, "companies have to realize that the business environment has changed. But they haven't yet. And they haven't realized how intense the consumer anger is."

It's not as if they weren't warned. Three years ago, Charlene Li predicted such consumer empowerment in the seminal book *Groundswell: Winning in a World Transformed by Social Technologies*. Today, she sees exactly what she expected back then. "Companies and executives are now on notice that any and all of their policies, their products, anything they do, are open for review," Li says. "That's not to say that any mistake they make will face the same kind of backlash that we saw with these

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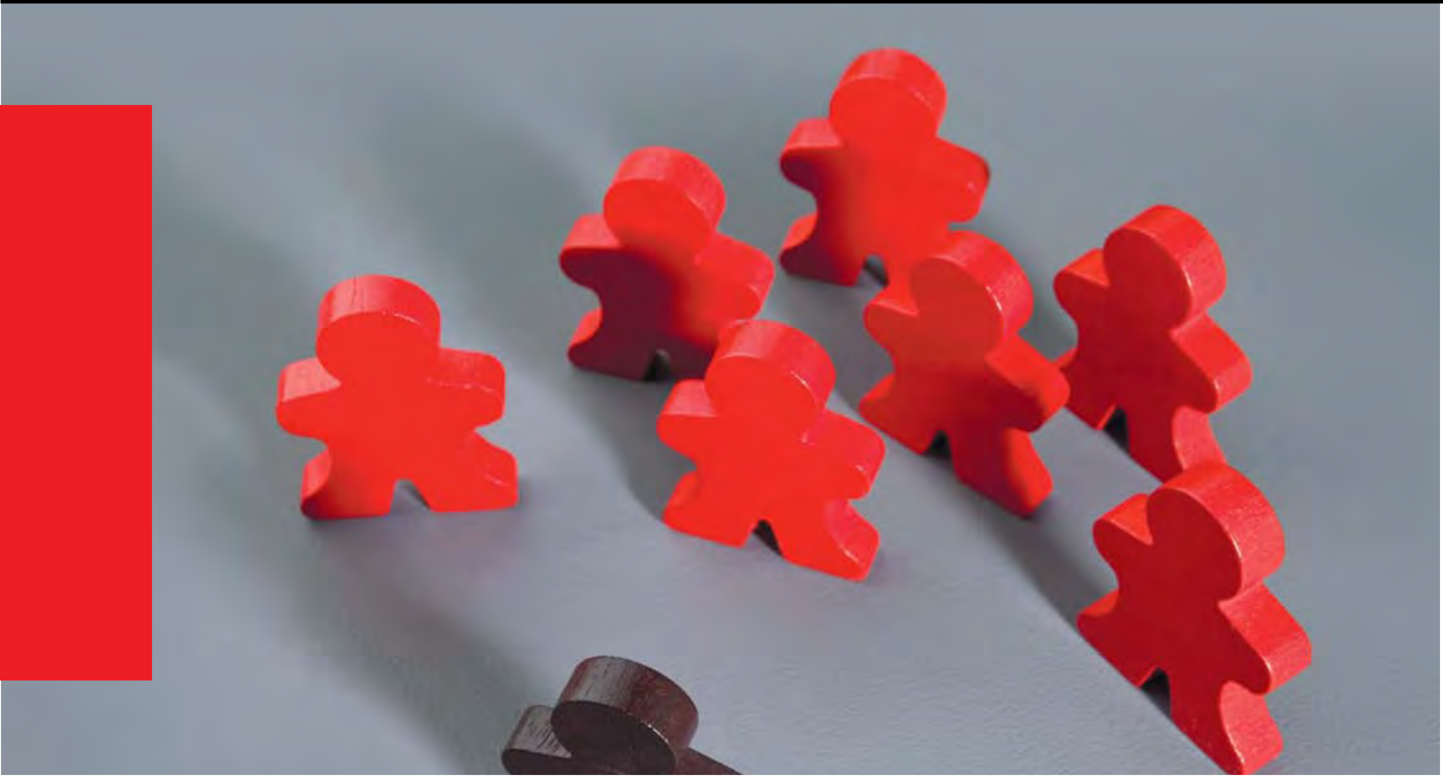

three companies. But it does mean that they are on notice that the decisions they make will be scrutinized by the public."

And the public, aided by social media, needs less provocation than ever before to turn on companies with complaints and threats. Last Dec. 29—in the post-Christmas week during which many people are offline and off work—Verizon Wireless quietly announced a plan to push customers toward its auto-pay system by charging $2 for one-time telephone and online bill payments. Enough people noticed and balked that the resulting firestorm drew the attention of the U.S. Federal Communications Commission. On Dec. 30, one day after the announcement, Verizon reversed its decision. (Author and Web entrepreneur Guy Kawasaki notes that the company was proposing penalizing customers for paying online versus by personal check, a costlier alternative: "Instead of charging them, Verizon should have paid them to do that.")

Given their stunning victories over Netflix, Verizon, and B of A, customers are feeling more powerful than ever. "So, if you are a CEO or other top executive, you have to think now about who might be upset about your decision," says Li, who advises companies on how to develop and manage social-media customer relationships. "And you have to think about how to explain it and counter any complaint."

But like Morriss, Favaro, and others, Li believes that only a small minority of senior executives really understand the issue or the risks. "Most of them haven't even really

> “It’s all about relationships. It’s about how you explain things to customers or how you talk about a mistake.

thought about it,” she says. “And if they have, they think about it as an angry customer on Twitter. They don’t think about it as a movement.”

“IT’S ALL ABOUT RELATIONSHIPS”

Although the Netflix, Verizon, and B of A incidents span three markedly different industries, they teach a common lesson, says Harvard Business School professor Frances Frei, co-author of *Uncommon Service*. “If the issue is how to get paid for services—with fees, for example—the guiding words should be *simple, transparent,* and *fair,*” she says. “And in each of these three instances, the company violated one or more of those principles.”

And a common denominator among the violations, she suspects, is an ever-increasing bifurcation of internal responsibility for managing revenues and costs. The more those fundamental perspectives and operational roles become separated, Frei says, the greater the risk—and likelihood—of such disastrous decision-making. To illustrate her point, she cites what happened with Netflix—and compares it to another PR train wreck.

“Netflix was trying to charge for costs they were actually incurring,” she says. “So I compare them to what happened to LeBron James in the NBA. He did an admirable thing and gave up the maximum salary to try to form a great *team*. He should have been treated as a hero. But he handled it badly. It was the *execution* that was bad. The same is true of Netflix: They made the right decision, but the way they framed it was disastrous.”

Related to that, says Favaro, is the fact that just like Verizon and B of A, Netflix perfectly symbolizes the danger of “springing a decision on customers. People never react well when something is being sprung on them.”

And companies continue to spring big decisions on unsuspecting customers despite new channels of communication. Although companies now have an unprecedented platform for engaging and understanding their customers via social media, they are failing to take advantage of the opportunity, Li says. “And one of the reasons for that is that most companies think in terms of *transactions* rather than customers. They don’t think of them as people. But what customers want, more than ever, is for companies to understand them and really know them as people.”

PREDICTIONS

A TREND TOWARD MORE EXECUTIVES GETTING OUT INTO THE FIELD TO LEARN MORE ABOUT THEIR CUSTOMERS AND WHAT THEY WANT

The good news, she says, is that senior executives are finally starting to understand that a genuine sea change in customer relations is under way. And they’re increasingly interested in being taught how to respond.

“The message is that it’s not about social media or technology,” Li says. “It’s all about relationships. It’s about how you explain things to customers or how you talk about a mistake. But you have to understand your customers, and your customers have to understand you. Those are the things that define a good relationship. And not a lot of companies really grasp that yet. But now they’re working on it.”

TREASURE TROVE

Another key element in the equation is market research, a

discipline that has been devalued at a time when managers wrongly believe that they can grasp customer sentiments by having a summer intern monitor tweets and Facebook posts about the company's brands.

"In the old days, we had quantitative and qualitative research that was used to make decisions," says Larry Chiagouris, a professor of marketing at Pace University's Lubin School of Business and former chairman of the Advertising Research Foundation. "Nowadays, decisions are being made so quickly that in many companies, management feels they just don't have the time to do these 'classic' kinds of customer surveys."

Robert Mittelstaedt seconds the opinion that a lack of sufficient research played a prominent role in last year's three failures. "These companies might have asked their customers some questions," he says. "But if they did, they didn't ask the right questions. And in the case of Netflix, for example, because they had grown so rapidly and were doing so well, I suspect that their 'research' consisted of them looking at their own subscriber-growth data and making assumptions and decisions based on that, rather than relying on real knowledge about their customers." Mittelstaedt foresees companies investing more resources and time in properly conducted market research that gives executives confidence in their expectations of outcomes.

Jon Picoult predicts that companies will also pay more attention to the technology-based opportunities now at hand. "The irony, to me, is that a lot of companies spend millions of dollars to hire customer-research firms to understand what their customers need and want," he says. "They neglect to look at the treasure trove of information that is right at their fingertips. And among that is the chatter in social media, or the thousands of phone calls they're getting every day. Executives need to look more to those sources for input when they're making decisions."

He also expects to see a trend toward more executives getting out into the field to learn more about their customers and what they want. "And when those executives come back to the office and make a recommendation to the board, it won't be based on gut instinct," he says. "It will be based on thoughts and perceptions that have been shaped by actual experience with customers."

Ken Favaro agrees that field trips will become much more common. "Executives at higher and higher levels within the company will get out there more and more in order to hear firsthand what their customers are thinking," he says. "And we'll even see more discussions with them about the kinds of changes the company is contemplating."

POTENTIAL FALLOUT

Even as the risk of a media firestorm has steadily risen, traditional PR departments have lost influence. "In a lot of companies, there is no longer a seasoned public-relations person at the right hand of the CEO," says Jericho, N.Y.-based PR consultant Andrew S. Edson. "Instead, you often have a relatively inexperienced person who has a college degree in PR but lacks that long experience in the trenches that PR people used to have. And even if those veteran people are still around, they no longer have access to the boardroom."

But as a result of the recent hurricanes, he says, "I think with enlightened management teams, you will start to see more PR people sitting at the table when these risky decisions are being made."

Fraser Seitel, who authored *The Practice of Public Relations* and now teaches a graduate course on the history of PR at NYU's School of Continuing and Professional Studies, agrees with Edson. "I think smart CEOs will start to look to get more out of their PR people," says Seitel. "If you're going to have a PR person, you should know how to use him properly. And the CEO has to be smart enough to say to the PR person, 'What do you think, and why?' And he has to be able to discern whether the advice is any good. On the other hand, the PR person has to have the *chutzpah* to stand up and say, 'Look, I understand that this fee is going to add tens of millions of dollars to our bottom line, and I also understand that everybody in this room thinks we should do it. However, this is not an appropriate time politically for this company—and you, Mr. Chairman, in particular—to be sticking their necks out to do something that is going to be repelled by everybody and his brother-in-law as soon as we do it.'"

As a result of such potential downsides, David Johnson says, "we're going to see a lot more analysis of decisions, including with the PR department, before they are finalized and announced. And part of that is definitely going to be an analysis of the potential fallout from the decision."

THE CHIEF CONTRARIAN

Even with increased engagement of PR people in assessing decisions' potential blowback, companies looking to avoid the fate of Netflix et al. must rely on executives to be tougher and more frank in robust consideration of risks before new policies become final and public. "I find it hard to believe that nobody at one of these companies had any sense of the downside of these decisions," Chiagouris says. "But they may have been drowned out by the din of the planning sessions, or been reluctant to tangle with the CEO or some other senior executive who supported the decision and didn't want to hear their opinion. So one question I would have is about the cultures of these companies and how those discussions were handled—and should be handled in the future."

Guy Kawasaki elaborates on Chiagouris's point. "In a perfect world," he says, "companies would not make these kinds of mistakes." However, he says, one reason they do is a "groupthink mentality" in many large organizations. As a result, bad decisions are often inadequately contemplated or vetted. "And that's because at senior levels within companies, there are no longer devil's advocates," he says. "In a large company, a devil's advocate gets thrown out. So what I think is needed today is a new *position* as devil's advocate, a person whose job it is to challenge these kinds of dumb decisions and say, 'Let's look at what we're actually going to be telling our customers here and how they're going to react.'"

Picoult preaches the same sermon but uses a different verse of scripture to describe the critical role. "I advise my clients to appoint a 'chief contrarian,'" he says. "And I agree that in many large organizations today, the notion of being a voice of dissent—and particularly a lone voice of dissent—can be viewed as career suicide. So these companies have ended up with a kind of groupthink approach that leads people to clam up, even though in their heart they feel like, 'Gee, this decision we're making isn't right.' So I think companies have to take that sensitivity about speaking up off the table by actually appointing one person whose job, in all of these discussions, is to be the committed naysayer who thinks about how customers will respond to a given decision."

AWAKENINGS

In the wake of the tsunamis that swept over Netflix, Verizon, and Bank of America, it's not just bad media coverage or a loss of customers that are at stake. As a direct byproduct of what has transpired, boards have started to take note and expand their oversight of management.

"I think the biggest change we're seeing is that boards are starting to wake up and realize that the *marketing* decisions that are being made by the company, not just financial decisions or strategic decisions, are ones that the board needs to start to pay more attention to," says Chiagouris. "And that's also the healthiest thing you could possibly see as a result of these three recent episodes, because boards do need to be more active in assessing marketing decisions, which is something that has never really been seen before. And the point is not to micromanage these decisions, but to send a message to management that marketing decisions are also the purview of the board."

Mittelstaedt agrees that executives will now face more scrutiny. "Rarely does a board fire a CEO for a single mistake or incident," he says. "But things like a disastrous pricing decision or the retraction of a fee just becomes another straw on the stack. It can also be the one that breaks the camel's back. And today, it is becoming more of a factor in the overall equation of whether a person is an effective leader of the organization in the market situation it's in. And a screw-up like the ones we're talking about is bound to have the board questioning whether you're the right person for the job."

Favaro agrees. "Boards are having their feet held to the fire much more intensely than they ever have," he says. "And accountability for both CEOs and boards is higher than it has ever been. Both are feeling the heat. In the event

of a major mistake, boards have to show they're acting."

And even if a major blunder doesn't lead to a pink slip, it can—and likely will—lead to a whack in the wallet. "Boards are compelled to make sure that they are setting compensation in a way that is considerate of the results of the company," Picoult says. "And if you've had a severe PR storm like one of these, I think the board will have a tough time saying, 'Oh, OK, we're still going to give this person a huge bonus.'" In the wake of Reed Hastings' missteps, Netflix's board slashed his 2011 stock-option allowance in half.

And, Picoult says, in the future it won't just be such high-profile mistakes that cost senior executives serious money. Even less-publicized decisions that erode customer loyalty or undermine the health of the enterprise will carry a financial consequence. "In those kinds of situations that have not been

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as visible," he says, "it has been tough in the past for the board to see what has really happened and adjust compensation accordingly. But in the future, I think we'll see boards will become more aware of those issues, too, and act accordingly."

LESSONS LEARNED?

What will have been the ultimate impact of the Netflix, Verizon, and B of A smackdowns?

"I very much believe in competition, because it helps to create a form of meritocracy," Frances Frei says. "So I like it when companies like Bank of America or Verizon learn a lesson. Those companies paid a price, and that means that markets are working well. I am deeply, deeply encouraged by that." Says her co-author, Anne Morriss: "The opportunity exists to learn from the experiences of these three companies, because they are very powerful examples of what *not* to do in dealing with customers."

Beyond that, Chiagouris says, is the larger reality—there will be even more second-guessing of executive decisions in the future. "The fact that consumers were *rewarded* for their revolts will encourage more consumers in the future to engage in these backlashes," he says. "But at the same time, we have to hope that companies will become smarter about these kinds of decisions in the first place, so there are fewer dumb decisions that consumers need to respond to."

Seitel is not quite as optimistic. "I don't have great faith that the vast majority of managers are going to take these incidents to heart and change the way they make decisions," he says. "But a manager who *doesn't* learn from what has happened and take seriously the PR implications of every decision he makes is a moron. And if, in the future, they make bad decisions like this, they do so at their own peril." ■

MORE HEAT IN THE PR KITCHEN

It's bad enough that your customers can now challenge your bottom-line business decisions and win. Even worse is the fact that they now want to hold you accountable for your political or social views.

Microsoft discovered that way back in 2005, when its perceived failure to support gay-rights legislation in Washington State led to a formal apology and reversal of course by CEO Steve Ballmer. Last June, TOMS CEO Blake Mycoskie shocked some left-leaning retailers and customers by speaking at a Focus on the Family event. And in December—eight months after its CEO was pilloried for hunting elephants—GoDaddy hemorrhaged tens of thousands of domain registration customers after its support of SOPA legislation came under fire. The company quickly reversed itself.

So, expert observers say, just as companies such as Netflix, Verizon, and Bank of America can pay a steep public price for marketing mistakes, so can any enterprise that riles its customers' political or social sensibilities face a similarly harsh penalty.

"A misstep politically can do as much damage to a company as a misstep in a marketing sense," says Pace University marketing professor Larry Chiagouris. "And consumers have so many options today that it's very easy to switch from one brand to another if you disagree with what the company is doing politically or socially. The point is that companies can retract a pricing decision overnight. It's not so easy to retract a political or social position."

Of course, an argument can be made that, in fairness, a business should be responsible only for its products, pricing, and service, and not its politics. But in the era of social media and the empowerment of customers, that argument doesn't acknowledge reality.

"I don't think it crosses a line of fairness," says Connecticut consultant Jon Picoult. "And that's because when a consumer does business with a company, there are things that go beyond product and price and distribution and really create intense brand loyalty. And very often, that gets into what the company stands for. If you look at companies that have intense brand loyalty, you see things that transcend mere product features or pricing. It's about the larger things the company embraces."

Nevertheless, Booz & Co. senior partner Ken Favaro advises extreme caution in any public discourse. "Executives are not hired to promote their social values," he says. "Management's duty is to the company, not to social issues." His best counsel to executives is based on the adage, "Keep your political and religious views to yourself."

That's sound advice, says PR executive Andrew Edson. "I tell clients you have to be careful what you say and where you say it," he says, "because anything and everything you say today can, and probably will, become public."

Although he disagrees, in principle, with the notion that executives can be lambasted by angry customers for their personal views, Arizona State University B-school dean Robert Mittelstaedt acknowledges that such accountability is indeed a reality of the Internet age. As a result, he says, such controversy and customer revolt will become more rather than less likely. "But the real message here," he says, "is that the world is out of control when it comes to the notion of political correctness."

—J.B.