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**The Customer Experience as a  
Source of Competitive Advantage**

What Insurers Can Learn  
from Other Industries' Leaders

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Financial Institutions**

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## Presentation

To my parents who have thought me that anything is possible when you put your head and heart to it. Without your support I definitely would not be writing these lines in the chosen language nor from the location I find myself in.

For all the time concessions throughout this last year, I thank my husband for the unconditional support and understanding.

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## Resumen

Con un claro enfoque hacia el retador entorno de competición de precio y las expectativas de los consumidores cada vez más exigentes, esta tesina tiene como objetivo resumir como las compañías que escogen adoptar una filosofía orientada a proveer una experiencia del consumidor de cualidad superior para diferenciarse, logran crear una ventaja competitiva sostenible en el tiempo.

A este fin, la tesina expondrá una visión global de los elementos claves para diseñar y innovar la experiencia del consumidor teniendo en cuenta las tendencias sociales y mejores prácticas de líderes reconocidos por proveer clientes experiencias de superior calidad. Para facilitar este proceso de reflexión, la tesina está compuesta por las siguientes partes: conceptos básicos del servicio, particularidades del mercado, consideraciones internas para las compañías, visión global para repensar el diseño de su experiencia del consumidor, y finalmente las conclusiones.

## Resum

Amb una clara orientació cap al desafiador entorn competitiu dels preus i les expectatives dels consumidors cada vegada més exigents, aquesta tesina te com a objectiu, resumir com les companyies que trien adoptar una filosofia orientada a proveir una experiència al consumidor de qualitat superior per tal de diferenciar-se, aconseguiran un avantatge competitiu durador en el temps respecta als seus competidor.

Amb aquest fi, la tesis plantejarà una visió global dels elements claus per aconseguir dissenyar i innovar l'experiència del consumidor, tenint en compta les tendències socials i les millors pràctiques dels líders reconeguts per a satisfer als seus clients amb experiències de qualitat superior. Per facilitar aquest procés de reflexió, la tesis està composada per les següents parts: Conceptes bàsics del servei, particularitats del mercat, consideracions internes de les companyies, visió global per tal de repensar el disseny de la seva experiència amb el consumidor i finalment les conclusions.

## Summary

With a clear outlook towards today's fierce price competition and rapidly changing customer expectations, this thesis seeks to summarize how companies who turn to embracing the philosophy of providing a superior customer experience to differentiate themselves can achieve a sustainable competitive advantage over its competitors.

To this end, the thesis will provide an overview of key elements in designing and innovating the customer experience in light of current social trends and cross-industry insight from customer service established leaders. To easily undertake this reflection process, the thesis is divided the following way: basic concepts of services, external market outlook, internal considerations for companies, a high-level approach to rethinking the customer experience, and finally conclusions.



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# The Customer Experience as a Source of Competitive Advantage

## What Insurers Can Learn from Other Industry Leaders

### 1. Presentation of the Problem

In recent years, retention has been and remains an ongoing concern in the insurance industry, for both intermediaries and companies. Client attrition is increasing. The most palpable tactics adopted by the sector to mitigate the issue, from an outsiders view, are discounted pricing, and increased advertising and communication. This vicious cycle has taken off exponentially.

Operating within a soft market has forced Insurers to reduce prices, hence putting pressure on profit margins. Insurance in Europe is a mature market and insurance itself a commodity. The customer perceives no real differentiation between companies and simply takes advantage of the better and lower prices he is offered every day. In Spain insurers' advertising spent has surged to 197 million Euros in 2011, almost double the 2007 figure.<sup>1</sup> There is a clear lack of differentiation in the perceived value of Insurers' proposition that many are counter-balancing with an infusion of discounting schemes.

Today, services make up 71% of the Spanish Gross Domestic Product.<sup>2</sup> The days of manufacturing are long gone; and along with it should have gone product-oriented mentalities, in order to make place for the collaborative mindsets required in the Information Age. Ironically, Insurance is a sector where customer experience is more often than not a buzzword included in the strategy rather than a reality. Just review the key indicators followed by any company's daily reports, pay attention to the everyday language used by colleagues, or review their internal structure; all of these elements reveal the true mentality of product-oriented companies.

Customers are increasingly more knowledgeable and have more choices in deciding with whom, when, where, and how they will interact with a company. Their expectations are rising. Nowadays, customers will remain loyal as long as you provide them with the solution that best meets their expectations, the second someone else provides them something better, they will leave. Other sectors are listening, adapting their offering and along the way they are shaping customers expectations, our customers' expectations.

So insurers face an environment where traditional sources of competitive advantage like economies of scale and customer captivity erode, where change accelerates and products commoditize. This lack of real differentiation in a

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1 MINDSHARE, Inversión en medios 2011, Febrero 2012

2 WIKIPEDIA, GDP Sector Composition, [http://en.wikipedia.org/wiki/List\\_of\\_countries\\_by\\_GDP\\_sector\\_composition](http://en.wikipedia.org/wiki/List_of_countries_by_GDP_sector_composition) (Last consulted in August 2012)

stagnant market has brought upon a dance of customers from company to company. In this context, providing a superior customer experience can be that real differentiating factor leading to regaining a sustainable competitive advantage.

The objective of this thesis is to investigate current social trends, as well as companies renowned for providing an excellent customer experience, in order to put in evidence the benefits of a pursuing a differentiation strategy based on providing a superior customer experience. In addition, another goal is to analyze the internal conditions necessary to undertake the creation of a sustainable competitive advantage through customer experience. The purpose of the thesis is not to design the “ideal” customer experience for insurers to adopt; this is a reflection every company is to make on its own in order to adapt it to its particular situation and context. Therefore, the thesis rather aims to provide a general framework to start a reflecting upon a company’s current customer experience and how to evolve it, in light of the social trends and cross-industry insight previously analyzed.

Since customer experience is an intangible topic that is best understood when recurring to one’s own personal experience, in order to facilitate the understanding of the concepts, the thesis will focus on customer experience in the context of personal insurance. Although once these general concepts are understood, they could be applied to reviewing the “business client experience”.

To provide the reader with an integral understanding of how the customer experience can sit at the center stage of a company’s strategy and become its competitive advantage, the thesis is divided in 3 parts. The lecture of this thesis should be seen as a reflection process enabling the reader to: fully grasp the components of a service experience, and the evolution it is currently undergoing, from both academic and practical perspectives (part II); identify the key factors and best practices a company interested in building a competitive advantage through a superior customer experience needs to focus on (part III); reflect upon its own company’s current customer experience (part IV). This thought process seeks to allow the reader to reach a sound understanding of basic concept and current trends, in order to develop his thoughts on an insurer’s capability to differentiate, and build itself a competitive advantage, on the grounds of providing a superior customer experience.

The first part of the thesis combines aspects of academic and practical nature. First, we will see an overview of academic concepts related to service in order to give the reader an understanding of the evolution from a product-orientation, to customer-experience viewpoint. The second part of the thesis will explore the main social trends that tell us the direction in which customer behavior is evolving and then move on into analyzing cases of customer-service leading companies from other sectors. All of the above will provide the reader with helpful concepts for the reading of future chapters.

The third part of the thesis will explore the factors that limit service quality and the internal conditions that are essential to undertake the creation of a superior customer experience which leads to a sustainable competitive advantage.

Finally, we will go over a general framework of the customer experience that will allow the reader to apply all concepts previously seen into reflecting on how to design and manage a superior customer experience that can lead to sustainable competitive advantage.

The methodology used to develop the thesis is anchored in three fundamental sources of information. First, a review of academic literature related to the differences between products and services, consumer experience, and service innovation. Then, thought-leadership articles from industry expert and studies from consulting firms on current market trends, specific companies, and business strategy. Finally, articles from industry experts in the fields of customer service and customer experience.



## Part One (Chapters 2 and 3)

*The first part of the thesis aims to provide the reader with a sound knowledge of background concepts that are of primordial importance in order to understand the particularities of a service company's competitive strategy. With that in mind, we will go through an overview of how service strategy has evolved, from the Industrial Era to the Age of Information, to become considered a strategic cornerstone in achieving a sustainable competitive advantage, for both product and service industries.*

## 2. What is Service?

Everyone has good and bad service anecdotes: someone who went out of their way to help you out, a simple transaction that turned into a headache of surreal administrative tasks, ... Because service is intangible, we evaluate it based on our own experiences, often times extrapolating the outcome of one isolate event to a company's overall quality level. On one hand, when everyday people talk about service, they usually broadly refer to any interaction they have had with a company representative. On the other hand, when companies talk about service they may be referring to a new product, or after-sales service, etc. Therefore, before moving forward, this chapter will provide the reader an understanding of the differences between product and services. In essence, what is service? Where does it start, and where does it end?

### 2.1 Where Does Service Stand in Marketing's Academic Literature?

#### 2.1.1 The Four Ps of Marketing

The four Ps of the marketing mix is a concept developed in 1960. Since then, generations of university graduates and business professionals have used the four Ps to decide a company's brand or product strategy, as well as determine how they differentiate themselves from their competitors. It is now a widely recognized fact that in order to reach your business objectives, a company must successfully define and align, and manage the four Ps: Product, Price, Place, Promotion.<sup>3</sup>

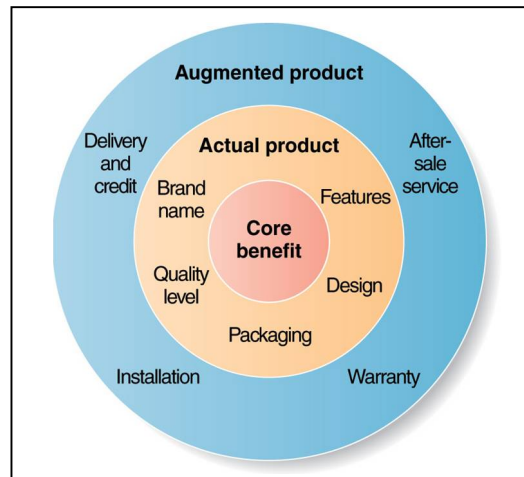
- **Product:** A product is anything that can be offered to a market for attention, acquisition, use or consumption that may satisfy a consumer's needs or wants. It includes tangible goods, intangible services, people, places, organizations, and ideas. Figure 1 helps visualize the different layers a product is made of. The Core Benefit, is the true essence of what the customer is purchasing. Charles Revlon demonstrated it in his famous quote: "In the factory we make cosmetics; in the store we sell hope." The Actual product is composed by product features, packaging, brand name, design and quality level. The

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<sup>3</sup> KOTLER P.; ARMSTRONG G.; CUNNINGHAM P., Principals of Marketing, 5th Canadian Edition, 2002, pg. 320-326.

Augmented Product and includes elements such as installation, delivery, credit, warranty, and after-sales service.

Figure 1. The Three Levels of Product



Adapted from Principals of Marketing.

- **Price:** The price is the amount of money charged to the customer for the product. It is important to recall that the consumer's willingness to pay the price is influenced by his reference value (a customer's personal reference of competing products' prices) and the differential value (a customer's own evaluation of the products' attributes in light of competing products).
- **Promotion:** Promotion is the sum of all communication tactics used to provide information about the company and its products to different stakeholders.
- **Place:** Place refers to providing a product a place which is convenient for consumers to access. An often used synonym is distribution.

As previously mentioned, the Four Ps concept was invented towards the end of industrialization era, it is therefore not surprising to see the main label "Product", in which services are simplistically defined as intangible products. Still, the three levels of a product help to understand that the consumer purchases a benefit (ie. in insurance, peace of mind), which is in turn made tangible by the actual product (ie. in insurance, policy documentation) and the augmented product (ie. in insurance, claims handling, after-sales service).

In the past, goods manufacturers, and companies in general, focused primarily on the actual product because their capacity to generate profit depended on how well they succeeded at producing the actual good at reasonable profit margin. The augmented product was perceived as something secondary to the business. However to service provider, the delivery of the service is an element critical to the company's ability to generate profit, and in no way something to be perceived as secondary. Thus the concept of the Four Ps is rather an ill-fitted one to truly think of service strategy. In any case, later on in the thesis we

will see how, today, both goods manufacturers and service providers are paying special attention to service at all product levels (as core benefit, features, and after sales service) in order to differentiate themselves and gain a competitive edge.

## 2.1.2 The Seven Ps of Marketing

Services are highly different to manage from products. As time went by, we have now moved into the Service Economy. In fact, in Spain services account for 71% of total Gross Domestic Product.<sup>4</sup> Along with this shift, service professionals sought a more proper model, an alternative to the four Ps, more adequate to define and manage the component of a service good.

More recently, service is defined as a form of renting through which clients receive benefits. Service is what a client values and is willing to pay for; services are sought experiences and solutions. In this definition “renting” is loosely used to describe payments against the right to use a good, access skills and expertise, facilities or a network for a determined period of time, instead of right-out purchasing (which is not possible in most instances). This definition more accurately reveals that purchasing a service does not result in the ownership of any “tangible good”.

In accordance with this definition, the Seven Ps<sup>5</sup> model refers to the already mentioned four Ps, plus three additional elements, that are of critical importance to service providers: Physical Evidence, People, and Process. In general, these three factors are not cited nearly as often as the first four outlined in depth above. Yet service industry experts use them constantly.

- **Physical evidence** refers to elements within the place where the service is purchased and/or delivered (store front, the uniforms employees wear, signboards, web, etc.) These elements are clues that make “tangible” the service offering. Customers will use these to judge the offering and it will affect their satisfaction.
- **People** refer to the employees within the company customers come into contact with. This is crucial not only at the service delivery stage but also in the prior to and after to the service is consumed.
- **Processes** refer to the processes and systems within the organization that affects the service delivery. They are the key to deliver a quality outcome. Services being intangible, processes become all the more crucial to ensure standards are met with.

These new elements are crucial for service providers to take into consideration when developing their company’s brand or service-good strategies, as well as when they decide how to differentiate themselves. Physical evidence, people,

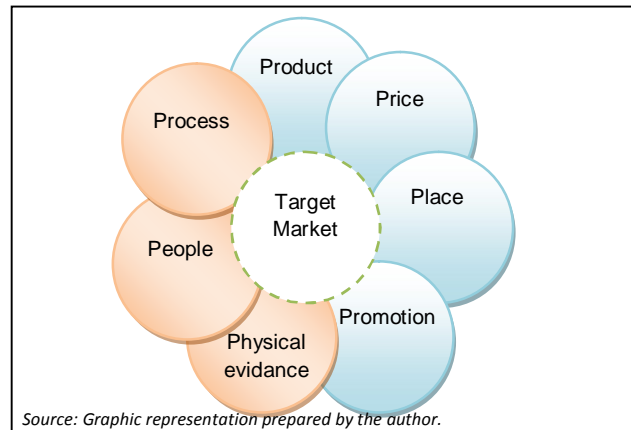
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4 WIKIPEDIA, GDP Sector Composition, [http://en.wikipedia.org/wiki/List\\_of\\_countries\\_by\\_GDP\\_sector\\_composition](http://en.wikipedia.org/wiki/List_of_countries_by_GDP_sector_composition) (Last consulted in August 2012)

5 WIKIPEDIA, Seven Ps, [http://en.wikipedia.org/wiki/Seven\\_Ps\\_composition](http://en.wikipedia.org/wiki/Seven_Ps_composition) (Last consulted in August 2012)

and processes encompass countless cues, which combined strongly influence the consumer's assessment his "reference and differential value" assigned to both the company and the service his purchased. This is why service companies, who differentiate themselves on providing superior service quality, pay great attention to these new Ps, rather than limit themselves the actual product sphere.

**Figure 2. The Seven Ps of Marketing**



The three additional Ps of the 7 Ps are elements of the customer experience. The customer experience is best understood as the journey the customer undergoes. It starts with initiating the search for information, to then move on to the purchase, the service consumption, and the renewal or repeat purchase. At each and every one of these stages, the consumer will come across given clues of Physical Evidence, People, and Processes through which he will evaluate the company and determine whether the product (policy) meets his expectations and suits his need for peace of mind. Unconsciously, this evaluation is then compared to his reference frame, and the customer evaluates the differential value in comparison to competing offers.

The additional challenge for insurers is that only seldom is the service consumed. This lower rate of interactions between the company and the customer make it more difficult to for the customer to adequately evaluate the company. Also as the service consumption may not occur, cues the customer will come into contact with during other stages of the customer experience become increasingly important to influence the customer's valuation of the company and thereby his decision to stay or stray.

Perceived differentiation has a direct impact on customer loyalty. This is why more and more companies are dedicating particular efforts into service differentiation, at all stage of the customer experience. This aspect holds particular relevance in the service industry and an even greater one in insurance, where a customer experience may never include the delivery of purchased service. Therefore, by designing and successfully managing a great customer experience from start, and throughout the stay of the customer with your company, service providers can gain an edge over competitors.



In general, tangible goods are quick and easy to copy, and in a similar way, so is a policy. An overall service experience, because of its very nature of intangibility and variability, is complex to duplicate. Sure, some individual elements of the experience can be copied but recent research argues that copying individual elements of an experience will not recreate the same experience, because creating an experience depends on how well the different elements of an experience are integrated and on how well they are adapted in continuing interactions with customers.<sup>6</sup>

What service is to a service provider? In reality it is the entire customer experience, from A to Z, from information search, to purchase and consumption, leading to repeat purchase or renewal. Those companies who have learned to use it as competitive advantage are those who have mastered the art of designing and improvising their customer experience over time, thereby making sure the customer will always choose that is the best option to repeat the cycle with them over and over.

## 2.2. The Holistic Customer Experience

### 2.2.1 Benefits of Applying a Manufacturing Mentality to Designing and Producing Customer Experiences

As discussed in the previous section, we live in the Information Age, we are part of a service economy, and products are highly different from services. The reader may, rightly so, wonder how going back to talking about manufacturing will make the reflection progress. Meanwhile the technology and economy has progressed, our collective memory maintains a view of service that is still filled with connotations of the past. This section explores how our own mentality is the root cause, in many cases, of service inefficiency and will set the stage to later profound on service design and evolution in total awareness of the myths that should be left behind.

Already back in the 1970ies, management experts argued that the problem with service is that it is performed out there in the field, by far-away and loosely supervised people working in highly variable conditions; meanwhile manufacturing occurred in the factory, under highly centralized, carefully organized, tightly controlled and elaborated engineered conditions and this explains why products produced in the factory are generally more uniform in features and quality than services produced in the field. Therefore, if the Field would receive the same attention, as the conditions inside the factory, a lot of new opportunities would arise.<sup>7</sup> This trail of thought is consistent with the additional three Ps of service marketing (physical evidence, people, and process). This demonstrates to us that what management expert predicted should be done in the 1970ies, was only added to the marketing mix decades later, and remains today widely unknown, and even less systematically applied when developing differentiation strategy for a brand or product.

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<sup>6</sup> LONDON BUSINESS SCHOOL. Innovation in Experiential Services – An Empirical View. London. 2007

<sup>7</sup> LEVITT, L. "Production-Line Approach to Service", Harvard Business Review, 1972, pg. 41-52.

However, as we will see later on, companies who successfully differentiate themselves on the grounds of providing a superior experience take great care in planning the details of the additional three Ps. These companies were able to do so because their way of viewing service has evolved from the traditional view. Traditionally, managers thought of service improvement in humanistic terms and this brought them to expect the performer of the service to try harder, show a greater commitment, etc.

On the other hand, managers who view service in more modern ways think in terms of design and planning services in order to reach a desired level of quality. To do so, just as an engineer would, instead of focusing on the performer of the task, they try to find entirely new ways of performing the present tasks, or better yet, changing the tasks themselves. Managers with a modern view of service look at a problem differently. They ask themselves what kinds of tools, skills, processes, organizational arrangements, incentives, controls, and audits can be set in place to greatly improve the intended outcome. They may consider substituting people by equipment, such as ATMs instead of bank tellers, if they believe it to be the best solutions. But more often than not, they turn to process design, adding tools and controls, in order to reach the desired outcome.

In order to accurately design a customer experience, someone must think of the desired output (ie. do we simply want to satisfy or delight our customers) and identify the problems that may occur, and then think of how to redesign the process and set tools that will increase the chances of reaching the desired output. In other words, whenever people are involved, the service designer must think about which processes will create an environment where the customer is walked through the stages of the experience seamlessly. When it comes to service providers, these techniques and types of service experience improvements are much more common, and must often have the greatest repercussions, over the pure substitution of service employees for technology.

Applying a manufacturer's view to designing a customer service experience helps you focus on the end goal, freeing up your mind to envision a blank page on which to start redesigning the optimum system, instead of trying to find ways to make the current machine run faster. It also teaches us to pay attention to details and build in conditions that will direct the outcome in the desired way, instead of leaving up to the freedom and creativity of individual performers. Insurers should reconsider what this may mean for their customer-facing performers out there in the field, from sales representatives (regardless of the distribution channel), to third-party claims service providers (garages, etc.).

The sole application of this approach on its own may definitely result in a more standardized delivery of service, but it is no guarantee of leading to superior customer satisfaction. The full benefits of this mentality occur when the manufacturing approach is combined with a strong customer focus. This will be explored in future chapters.

Therefore, it is clear that systematically designing and managing the customer experience is a powerful way of improving service levels while achieving differentiation from competitors.

### 2.2.2 Specifics of Customer Experience Service Design

In essence, insurance is an experiential service since the customer's evaluation of that service, as well as the insurer, will depend uniquely on the experience of the customer when interacting with the company (as opposed to goods-manufacturers where the customers' evaluation of the benefits derived from consuming the product also have an influence). The customer experience is often designed from the perspective of what is called the customer journey. Therefore, rather than focusing on a single product or transaction; the service is seen as a journey that spans through a longer period of time and consists of multiple components and multiple touch points.

The journey perspective implies that a customer experience is built over an extended period of time, starting before and ending after the actual sales experience or transaction. During a customer experience, numerous touch points occur between the customer and the company or the brand. These touch points need to be carefully designed and managed, especially when they involve interactions between staff and customers.

Furthermore, when using the customer experience perspective to building a differentiated proposition clearly shows the central role of the customer in innovation and design, as opposed to for example a central role of technology. As seen previously, many improvements and innovation in customer experience rather come from process innovation, instead of pure technology applications.

This is why a common trait of companies who successfully have differentiated themselves on the grounds of providing a superior customer experience, is that they pay a greater amount of attention to the physical environment, the staff, and the process. They design the experience backwards, first concentrating on the desired experience and from there defining the internal elements, such as back office support, that are required to ensure the desired outcome at the front line.

The Customer Experience is another way, nothing more and nothing less, than viewing our service goods, and processes in a holistic integrated fashion, through a customer's lens. At a high level, the customer experience can in some instance be a synonym of a business model. At a granular level it zeros-in in specific experiences, or touch points, seeking to optimize them.

Recently many companies from traditional manufacturing industries has come to notice that the peripheral services attached to their product, such as after-sales service and delivery, generate better margins and revenues than their traditional product offering. As business leaders started coming forward and

speaking out loud about how these strategies proved to be successful ways to compete in an age of offshore manufacturing, increased commodization of manufactured goods, and reduced margins, more and more companies started paying a closer attention to their customer experience.

Thought-leaders in the service industry have called experience the “future of advertising” because customers are more likely to make repeat purchases and give positive word of mouth when they had a good experience. Furthermore, when experience design is used to create an emotional connection with customers, through careful planning of tangible and intangible events, the company gains a key lever to creating a convincing customer experience and an important factor influencing customer loyalty.

The fact is that more and more companies who aim to build a sustainable competitive advantage are adopting the customer experience philosophy. In fact, the American consulting firm Temkin Group’s Customer Experience Management Report shows that 7% of organizations consider themselves a customer experience leader today while 61% aspire to be a leader in just three years. We can derive a few conclusions from this statement.

First, as companies embark on the challenge, they will need to create the right environmental condition and hire a different type of management profile. This is already happening as we see emerging new roles such as Chief Experience Officer, Chief Customer Officer Positions appearing on boards of directors. The role can largely be described as that of the person in charge of aligning Operations, Information Technology, Marketing and Sales to ensure a seamless customer experience. As of 2009, there were already 450 CCOs worldwide.<sup>8</sup> Nonetheless, as this first step on its own does not guarantee that a turnaround within the company will occur. More on this later as we explore the essential conditions in a company’s internal environment in order to achieve a differentiation based on providing a superior customer experience.

Second, since few companies today claim to really be customer-focused, if we were to run a survey with their clients we would probably conclude that even fewer companies truly are customer-focused. The reality is that the customer experience has grown to be a buzzword in many companies’ strategies. It appears on all the right corporate papers, they may even host customer-focused special initiatives, but when analyzing thoroughly their front stage customer experience; few live up to their aspirations.

The fact of the matter is that you may recognize a truly customer-focused company by the consistency between their customer strategy and their customer experience. Later on we will explore some of cases of companies who are true champions at creating superior customer experience.

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8WIKIPEDIA, Chief Customer Officer, [http://en.wikipedia.org/wiki/Chief\\_customer\\_officer](http://en.wikipedia.org/wiki/Chief_customer_officer) (Last consulted in August 2012)

## 3. Service Experience Innovation: the way to maintain a competitive advantage over time.

### 3.1 The Greater Potential of Service Innovation

As prices are falling and attrition rates increasing, retention, or better said, customer loyalty is a key concern in insurance. Most products are clearly commodities and too often we have fallen into the trap of seeking quick fixes such as price adjustments, products refresh readily copied from others, more stringent control in billing, etc. Although all of these may help, none of those are tackling the root problem: an offer poorly differentiated from competing alternatives.

Jeff Bezos, Amazon's Founder and CEO is recognized for having said: "When people ask me if our customers are loyal, I say: Absolutely, right up to the second that somebody else offers them a better service". In other words, if your customers can live without you, eventually they will. And what leading companies are doing is to constantly provide and improve every element of their customer experience to mitigate the possibility of a customer being tempted to stray.

Kaihan Krippendorff, a strategist and consultant for Fortune 500 companies, takes a step further, and upfront claims that service innovation will be an important factor in turning around burned business. He claims a problem of innovation in service industries, such as financial industries, is their focus on product innovation (new financial instruments and products) when they essentially sell service.

These forward thinkers make us realize that in insurance as well, there is a much greatest potential for differentiation lays in service experience innovation.

### 3.2 Types of Service Innovation

Service Innovation within companies manifests itself under three categories:<sup>9</sup>

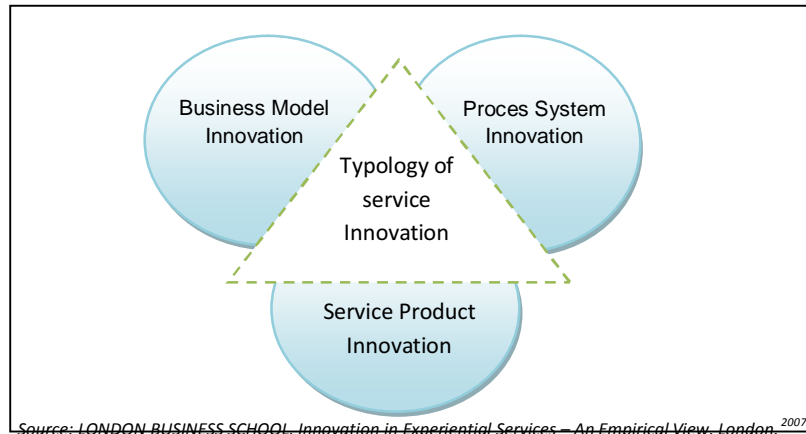
- **New business models / concepts** involve a complete or substantial change in the way in which revenues and profits are earned. This is often accompanied by innovations in organizational structure in order to accommodate the changes in the business model. Some business model innovations are initiated by new technologies, others exploited them, but many are more complex or not technology dependent.
- **New Process-system improvements** involve changes in front stage that impact the customer experience, especially the interactions between a customer and a service provider, exchange of information, etc.

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<sup>9</sup> LONDON BUSINESS SCHOOL. Innovation in Experiential Services – An Empirical View. London. 2007

**New service-product offerings** is the most similar to traditional goods-manufacturers' innovation activity. It involves the introduction of new services.

Figure 3. A Typology of Service Innovation<sup>10</sup>



Evolving, or improving, a company's customer experience is what will allow that company to maintain its competitive edge, the differentiation, over time. The outcome of improving the customer experience can be all three previously described types of service innovation. However, consistent with the discussion in previous chapters, literature shows that major most service innovation takes place in process-system sphere or at the business model level.

Considering today's managerial preference for short-term results, most service experience innovations come from process-system advances in customer journey. On one hand it has the advantage of maintaining constant incremental improvements overtime allow the company to maintain its competitive edge. One the other hand, the company must carefully select its initiatives to focus on relevant incremental improvements. Otherwise they may see another competitor take a leap over them.

The reader should make a mental note of the following paragraph as it will truly sink in when considered in light of the social trends and leading companies best practice that will be seen further on. Many of the customer experience innovations with major impact takes place at the business model level. This reflects two important points of the thesis.

First, in order to reap the end result of a different customer experience (loyalty, higher profitability, and competitive edge), first management must be onboard and create the right environmental conditions for the change to occur. Customer experience, in a pure service industry, is the closely related to business model since your business model is how you deliver the service to the customer. A truly differentiated experience in the front stage, requires a perfect alignment in the back stage, trickling back through all departments and all the way to top management.

<sup>10</sup> LONDON BUSINESS SCHOOL. Innovation in Experiential Services – An Empirical View. London. 2007

Second, a business model holds connotations of strategy, operational efficiency and cost advantage. These are powerful and measurable concepts. They are generally given a high level of importance and attention from management. Customer experience on the other hand holds a connotation service, which in turn is associate with servitude or servicing, customer satisfaction. These concepts are weaker and difficult to measure and to relate to benefits-earned concepts. As such it generally receives lower attention from top management. This is somewhat ironic considering service is a gateway to achieving that true differentiation, the kind of differentiation that give you a competitive edge, survival, and business success. However as previously seen, innovative consumer experiences often result in innovative business models. Therefore, this rather a vocabulary issue. We can conclude that innovation applied to the customer experience leads to differentiation, thereby providing a competitive edge, resulting in greater financial rewards such as increased sales (repeat purchased) and cost efficiency (a less variable, higher level of service delivery).

### 3.3 The Stage of Service Innovation

It is customary amongst service providers, service design agencies, and consultancies in the field of service experience design to frame the experience under theatrical terms in order to underline that a service can be seen as a carefully planned and coordinated performance. This concept is especially helpful to design and improve the delivery of a particular service-good or any particular stage of the customer experience. Many system-process innovations come from using this concept. There are five distinct areas, which all contribute, directly or indirectly, to the customer's experience.<sup>11</sup> It is a different angle, an additional and complementary view to the Seven Ps model.

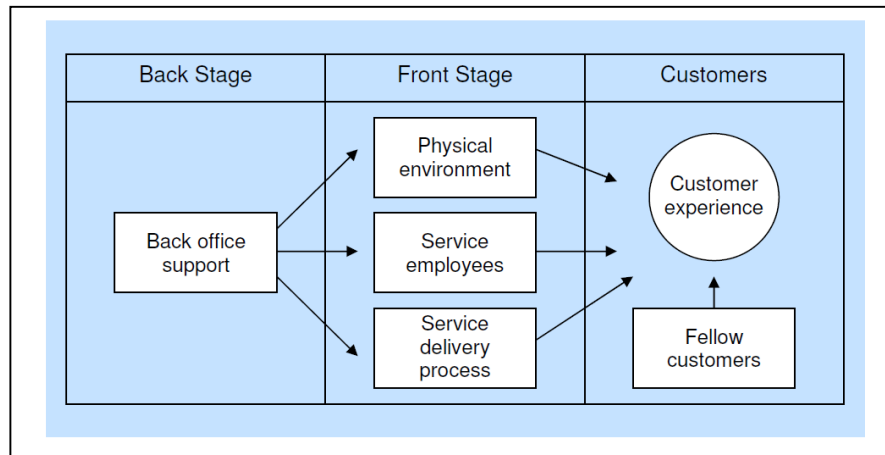
- **The Stage:** The physical environment is the setting in which a service is delivered or where the experience is created. It serves different purposes such as accommodating customers and employees, guiding behavioral actions, and providing cues about the type of service to be expected.
- **The Actors:** The interaction between customers and the people delivering the service is a major factor influencing customer experiences. The person's behavior, willingness to help customers, provide prompt service, assurance, knowledge and courtesy as well as their ability to inspire confidence, empathy, or the caring and individualized attention are all major components in the perception of service quality.
- **The Script:** Service delivery process refers to the series of actions or events that take place to deliver the service. In theatrical terms, it is term for the script, defining acts, scenes, intervals and actors involved. The script determines the flow of the customer through the organization.

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<sup>11</sup> LONDON BUSINESS SCHOOL. Innovation in Experiential Services – An Empirical View. London. 2007

- **The Audience:** Fellow customers are a concept that applies especially in service situations where other customers are present at the time of service delivery (ie. transportation, entertainment).
- **The Back Stage:** Back office support refers to all employees and tasks that are indirectly related to the service delivery. A strong connection between back and front stage people is essential to ensure service delivery.

Figure 4. Customer Experience Service Design Areas<sup>12</sup>



*Source: LONDON BUSINESS SCHOOL. Innovation in Experiential Services – An Empirical View. London. 2007*

The Stage concept will facilitate the lecture of future chapters as it may allow the reader to appreciate the detailed attention that companies, who successfully build a differentiation by providing a superior customer experience, invest into staging the experience delivery.

<sup>12</sup> LONDON BUSINESS SCHOOL. Innovation in Experiential Services – An Empirical View. London. 2007



## Part Two (Chapters 4 and 5)

*The second part of this thesis aims to broaden the reader's perspective with regard to changing customer expectations' real and imminent impact on business models, or customer service delivery models. To do so we will analyze current social trends and then take a look at how leaders from outside the insurance sector are leveraging these trends in order to build themselves business models that give the center stage to the customer experience as the ultimate way of building a competitive advantage.*

### 4. Social Trends Challenging Your Businesses

"Nothing is permanent except change." The quote from an ancient Greek philosopher remains true, although the pace of change is now more rapid than ever before.

Possibly the most ancient and common approach to introducing a novelty, is to monitor your competitors and copy successful products and features they introduce in the market. This approach has reached a point where copies are readily made and launched. Therefore, not only does the insurer enjoy a minimal time frame to reap the benefits of the novelty introduced, but with the pace of change, it barely provides him the status quo alongside other me-too companies, instead of achieving a true differentiation that will bring benefits over a longer period of time since true differentiation is more complex to imitate.

In order for Insurers to succeed at designing customer experiences that will provide them with a sustainable advantage over their competitors, Insurers need to focus on redesigning their experience to align it with tomorrow market reality.

The following section takes a closer look at social trends that are shaping the consumers' expectations, and therefore, have the strongest implications for Insurers seeking to differentiate themselves (and improve their perceived value) on the grounds of providing a superior customer experience.

#### 4.1 Simplicity

The simplicity trend consists of offering the lowest possible level of complexity for the maximum amount of value. It can also be summarized as the extreme simplification of everything.<sup>13</sup> If you are thinking through corporate lens, this first statement should clash. Over the last decade, corporations has lived a move from a hierarchical to matrix organizational structures, and in the insurance sector the law of Mediation is instilling new rules for multi-channel distribution,

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13 FAST COMPANY, Aaron Levie, The Simplicity Thesis. 2012 <http://www.fastcompany.com/1835983/simplicity-thesis> (Last consulted in August 2012)

these examples, to name a few, reflect some of the challenges that Insurers face in dealing with complexity.

Leading companies who have created a competitive advantage through a differentiated customer experience, have embraced simplicity as a part of their cultural philosophy. This enables them to systematically look for ways, not only to avoid passing on their own internal complexity to distributors and consumers, but also to review and eradicate complexity at every stage their entire customer experience.

The simplicity trend originated in Silicon Valley and it is now expanding quickly amongst all industries, the service industry is no exception to the rule. While specific applications of the simplicity trend are endless, they can be summarized in two areas.

- **Disintermediation:** Disintermediation consists of the elimination of unnecessary middlemen. The simplicity trends outlines how any category where a middleman stands between the end consumer and the provider of the solution (product or service) without providing additional value to the customer is about to get disrupted and see a newcomer providing the end consumer a simpler access. Customers no longer accept to “subsidize” a vendor’s inefficiency.
- **Reducing customers’ workload/tasks:** is about frenetically reducing unnecessary options and steps, narrowing clutter, dissimulating with style as much work that is actually going on from what is required of the customer, and eliminating any barriers that prevents the customer from enjoying the best possible experience. Customers are increasingly loyal to who makes their life hassle free, who offers them the simplest, most seamless, experience.

Companies who seek to adhere to the simplicity philosophy can do so by integrating four aspects into their business as usual. First, think from A to Z. How can the entire customer journey be handled in the simplest way? From initiating the search process to renewing it the policy. Second, say no. Eliminate service elements or features that are not valued, and optimize the ones that are. Third, focus on details. Compromising is an easy way to reach internal consensus but it may lead to costly outcomes, do not compromise on simplicity. Fourth, constant review. Periodically ask yourself, if anything can be done any simpler.

The speed and scaled of change propelled by the revolution in communications (internet, mobile technology) has left any company that is even the slightest bit more cumbersome, costly, or inefficient to be beat out by a newer, more streamlined competitor. In this new environment, differentiation is going to come from creating the simplest experience. Therefore, the only thing limiting a company from differentiating itself is its own ability to envision a simpler way and make it a reality. Service providers and companies in general that are succeeding are the ones who manage to consistently improve their customer experience to deliver extreme simplicity.

In insurance the greatest example of the simplicity trend's impact is the up rise of internet insurance and aggregators offering customer a more convenient and direct way of purchasing insurance. Technology on its own is no guarantee of success, it most introduced in accordance with customers understanding of it and perceiving it a more beneficial to them. Internet insurance is on the rise not only in Spain but worldwide. Therefore there is a strong implication for traditional mediators to rethink what is the value they bring to customers, which customer segments truly seek this value and thus are willing to pay a more elevated price for it.

In other sector, we have seen the simplicity trends leading to dramatic outcomes as in the case of Kodak's bankruptcy, and other surprising turnarounds such as Barnes and Nobles (bookstore) evolving their retail concept into a gathering place by introducing coffee shops. In any case, when disruption sits at your door step, reviewing our customer experience to think of new ways of delivering a superior value is great pathway to seeing new opportunities one might otherwise never have seen.

## 4.2 Social Institutionalization

Many companies are only starting to experiment with social media. They are experimenting with social media in hope to discover where the opportunities lay. Most attempts seek to replicate what is achieved through traditional media in the online world: advertising campaigns with a brand building or a sales generation objective. However, social networks have their own set of rules, and the users seek and respond best to peer generated content. Instead of asking themselves how to infiltrate themselves into social networks, companies should be asking themselves what opportunities or threats this social movement brings.

Social institutionalization is the rise of social sites replacing institutions and companies. It all began with Ebay revolutionizing the way to exchange goods on a peer-to-peer basis and it has extended to vast array of areas such as car sharing and even loans. The setup of a social site is characterized by a transaction occurring directly between individuals or "peers" without the intermediation of a traditional company or institution. The people that participate in the exchange may seek a profit, or not, depending on the philanthropy of the site.

Financial Services and Insurance are highly regulated sector with great barriers to startups. Even through such barriers, social sites have already started to emerge. The economic crisis has driven the expansion of these sites in UK, USA and Canada. Banks are not as keen as before in lending money and interest rates offered to investors are not as seductive as in the past. Therefore consumers found increasingly appealing the idea to bypass the bank and rely on a social network. In 2005 total peer-to-peer loans were of \$118m million and they were expected to reach 5.8 billion in 2012.<sup>14</sup>

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<sup>14</sup> MARKET WATCH, Amy Hoak, "Bypassing the bank: How to use peer-to-peer lending sites to borrow money", 2008

Insurance's roots lies in a social networks of people coming together to protect themselves against risks. The question of whether peer-to-peer insurance can work is not a farfetched idea. In fact, Friendsurance is the first peer-to-peer site, it was created over a year ago in Germany and offers household, personal-liability and legal-expenses insurance.

The purpose of the thesis is not to investigate this alternative business model. However, it is an interesting example of how, when some thinks of differentiation in terms of delivering an alternative experience to the customer, opportunities that otherwise would never have been considered start to emerge. These opportunities may lead to new products, services, or even business models.

### 4.3 Instant Knowledge

First it was the apparition of Internet, and then smartphones and mobility. Customers are always ON. They have more knowledge at their fingertips, anywhere, anytime, in fraction of time. This access to information regarding products, services, quality, pricing, companies; as well as scandals, recalls, and negative reviews, is ever increasing. Used to instant information, these customers also expect instant gratification. They will increasingly expect the companies' representative knowledge to match or exceed theirs.

Increasingly, customers will come to expect answers to their queries and request immediately. This impact all front stage performers of the customer experience. In insurance, whether you work in sales, after-sales or claims. Customer will be requesting more precise information and faster. As this service level expectation rises, the level of training and/or tools required to match customers' expectations, may very well exceed a company's ability to supply it. Companies who seek to provide superior customer experiences will need not only to provide answers fast, they will also need to be proactive in informing customers.

### 4.4 Trust and Transparency

Given the various stages of the financial crisis, real estate bubble burst, banking system, government debt and euro, and the scandals that occurred at each stage, it is only fair to expect trust will continue to be an important theme to consumer in the coming years.

As Deloitte Consumer 2020 report underlines, consumers will continue to trust peer recommendation over company information and are likelier to sense when companies are not being genuine. With higher education and better internet connectivity due to growing affluence, more consumers will scrutinize products, services and companies. They will expect and demand transparency, not only in product and service quality, but especially in pricing, and company policies and procedures.

The implications are particularly relevant to the Financial and Insurance sectors, where the customer perceives products as complex and difficult to understand,

and where service procedures (imposed schedules, etc.) give little leeway to consumers. These are industries where trust is low and greater transparency is an ongoing demand in customer surveys. In the end, customers simply ask for a sound understanding that the decisions they are making, not only at purchase time but at all stage of their experience, are in their best interest.

So trust, in a similar fashion to the simplicity trend earlier mentioned, is something highly valued by consumers in our sector. Yet it is a scarcity amongst companies' offering. This in no way should be misinterpreted as stating that Insurers intentionally scam consumers. Rather, if you consider what constitutes trust in the eyes of the beholder, you see how easily perceived trust can lack in a company's interaction with its customers. Marta Rogers in her book *Extreme Trust*<sup>15</sup>, explains that trusting someone else depends on how you both perceive their intentions and their competence. On one hand, do they respect your interests (good intentions)? On the other hand, do they have the competence to carry out these intentions? So Trust is about customers increasingly expecting companies to act in their best interest and be competent and efficient in the delivery of the service. Cluttered information, complex language and terms, unfamiliar procedures, unsatisfying interactions with company representatives (from sales, to post sales service, claims handlers and even third party providers), are all factors that can generate mistrust.

A company can ensure proactive trust by reviewing every customer interaction with the company and ensuring that in each moment, it truly builds the perception of good intentions and competency. Some examples include: Reminding customers before automatically renewing any prepaid service agreement in a way that allows to make the decision whether it is in their best interest to continue, telling customers when there are eligible for free benefits, reminding them when they haven't claimed something they are entitled to, keep them abreast at all times of the process their file or demand, advise them when they buy too much of something, are paying more than they need to, or the product may not be right for them. All of these are examples of how companies are can be proactive about building customer trust.

So if trust is a scarcity highly valued by customers, it holds great potential for building a sustainable and differentiated customer experience, as reaching a transcending trust at every stage is complex to achieve and replicate.

## 4.5 Listening

Traditional, one-way communication and advertising is increasingly perceived as outdated. As new a generation of technology-enabled consumers arises, customers increasingly expect to interact with companies in the way they choose. In addition, they expect an answer regardless of whether the company is using the medium they have selected. A fair illustrative example is Twitter, where consumers expect feedback to their tweets. Tomorrow's customers will demand that companies shift from broadcasting (one-way communication) to

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<sup>15</sup> FAST COMPANY, Don Peppers, So You Think Your Customers Trust You? 5 Reasons To Think Again. 2012.

< <http://www.fastcompany.com/1839425/so-you-think-your-customers-trust-you-5-reasons-think-again> > (Last consulted in August 2012)

servicing (attend my concerns) and from selling (one-way distribution) to collaborating with them (involvement in the design of solutions, services, products).

The new panorama in media affects all customer-facing areas because they all communicate with customers. Companies seeking to maintain a relationship with their customers over time can benefit from rethinking customer experience from a collaborative perspective rather than as a single, or series, of transactions and interactions over time. This is how new opportunities for engaging customers can be uncovered.

## 4.6 Loyalty

The upcoming generations of younger customers display a more distractible loyalty. They are more short-term oriented. They are more influenced by networks of friends that include, not just the people they personally know but the dozens hundreds and even thousands people around the world with whom they are connected, rather than by official company advertising campaigns. Companies must act tactfully as they risk losing loyalty and brand equity overnight if they misstep.

Before the internet and e-commerce, people went from store to store to look at products, compare them, and make their selection and purchase. Today, a customer may see a product in a store, google it to find alternative merchants, compare online prices, post a picture on a social network and ask for opinions, use a smartphone app to check availability at a store nearby, go to the store try it out, check the feedback from friends and then complete the purchase online. Today shopping experiences can take multiple different paths. Everything is at your fingertips, the possibility to buy or to change company. The fact is that it does not matter whether customers' communication patterns are traditional or modern, but companies need to be present everywhere their consumers go to ensure they have a positive experience at every point. And while many might argue the mass client is not yet at such an advance stage, the previous trends seen in this chapter show us that this are all changes taking place right now, and it will not take many more years before the generations of customer born with a smartphone in their hand become the masses. Companies seeking to differentiate themselves on the grounds of customer experience need to take into account the overlapping customer interactions preferences.

## 4.7 Conclusions

The trends seen in previous sections of this chapter, simplicity, social institutions, instant knowledge, listening, trust and transparency are all particularly relevant aspects for doing business in the near future as they are shaping the ways in which future customers will see to interact with companies. Therefore, the companies who will manage to successfully integrate these elements in their customer experience will inevitably be perceived by customers as more convenient, capable and trustable. This is a strong foundation for commanding greater loyalty and gain a competitive edge over competitors.

## 5. Leading Companies in Creating a Competitive Edge Through Customer Experience

As demonstrated in previous chapters, although service is no novelty, and we live in a service economy, service science is still relatively recent. Moreover, there are today relatively few companies that can truly claim to provide superior customer experiences.

Of course these companies closely monitor their competition, but it is generally not with the intention to copy it. Above all, these companies look for inspiration outside their industry. They sought ideas and concepts they could somehow be the first to apply in their industry and thereby, offer a service of superior quality that would also differentiate them, and give them an edge over competitors. For example Apple studied luxury hotels to learn about customer service excellence and Commerce Bank turned to fast-food restaurants and big box retailers for inspiration on store location, operational efficiency, traffic generation and building a service cult.

This chapter explores given companies in the industries of fast-food, retailing, traveling, and financial services, in order to better understand how they successfully offer superior customer experiences, and derive cross-industry insight relevant for Insurers.

### 5.1 Fast-Food

Food-Food chains are the earliest example of how the All America Way of auto manufacturing was effectively applied to the service sector. This section briefly reviews the revolution that McDonalds brought to defining service quality through the standardization of service delivery.

#### 5.1.1 McDonalds

McDonalds has been and remains an inspiration for many business leaders seeking to systemize service delivery in order to indirectly control and reach the desired service level quality. In order to best understand how deeply McDonalds has brought innovation to the service experience, the reader should imagine the context and time at which the McDonalds first introduced its franchising concept.

#### Revolutionizing Fast-Food

It was back in 1950ies when McDonalds made food become “fast”. Ray Kroc is the businessman to whom the incredible success of the fast-food chain is attributed.<sup>16</sup> Together with the McDonalds brothers, he revolutionized not only the restaurant industry in North America, but along the way McDonalds also profoundly changed farming and food distribution. McDonalds’ entrepreneurial financing (franchising) and careful site location are often cited as key success

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<sup>16</sup>WIKIPEDIA, Ray Kroc, [http://en.wikipedia.org/wiki/Ray\\_Kroc](http://en.wikipedia.org/wiki/Ray_Kroc) (Last consulted in August 2012)

factors. Nonetheless, its most outstanding legacy to the sector is how they are able to command from the head office a standardized and controlled execution at each and every outlet, which results in the same customer experience: rapid delivery of uniform and high quality prepared foods, environment of cleanliness, order and cheerful courtesy.<sup>17</sup>

### **Systemization of Service Delivery**

Although technology had some part to play, McDonalds' innovation came from the systematic substitution of equipment for people, carefully planning the use and positioning of that equipment, and including the right tools to ensuring the same quality experience in each outlet. Through this smart and detailed exercise, they designed every aspect of the customer experience.

The outlet and its equipment are designed expressly to store and prepare the defined menus. In fact there is no storage place for foods that are not a part of the menu. Thus franchisees have virtually no discretion regarding the mix of foods to sell, of course because of given contractual limitations, but moreover because the very design of the facility eliminates the slightest possibility to do so. In a similar fashion, employees have no discretion regarding how to prepare and serve the food. The equipment is thought to the last detail. For example, the French fries scoop is especially shaped to prevent spillage while filling bags. The same attention to details goes into the look of store itself. Customers might be discouraged to from entering if the building looked unappealing from the outside; so considerable care goes into the design and appearance of the structure itself. In every aspect, design is use tactfully to eliminate the typical service variability which impedes standardization and quality. Therefore, the entire system functions as originally scripted.

In order to achieve this front stage outcome, McDonalds also mastered the back end area, with new methodologies for strategically planning the location of outlets, and important changes in managing distribution channels.

Back then, McDonalds demonstrated that through careful design of systems and processes, elements that may at first appear to be completely dependent on the good will of service employees and their hard work, can be radically improved and directed towards the achieve the same outcome. This then early view of service delivery praised the application of manufacturing techniques to deliver a uniform quality level service. The assumption being that the correct delivery leads to customer satisfaction.

Today McDonalds' is more often than not blamed for having brought the plague of world-wide obesity by exporting American fast-foods. As a result, it's arguable whether McDonalds can truly be considered a leader in customer experience. Nonetheless, its legacy in designing for service delivery sets valuable lessons for companies seeking to add effective and efficient service delivery into their customer experience design.

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<sup>17</sup> LEVITT, L. "Production-Line Approach to Service", Harvard Business Review, 1972, pg. 41-52.



## 5.2 Retailing

North American retailers have reached a stage where there is virtually no room left to improve operational margins through economies of scales. This section explores how retailers are leveraging and managing service improvements and innovation strategically to reinforce their customer experience. This in turn, results in a greater differentiation, an improved competitive edge, and an additional source of revenues or lower operating costs.

### 5.2.1. Apple

#### **The Undeniable Leader**

Apple has achieved what most company desire, to be the undeniable leader of their sector. This is such a widely accepted fact that no one is surprised when we hear that companies, in and out of the tech world, have made it their mission to “become the Apple of their industry”.

Apple, at the helm of its both visionary controversial deceased leader Steve Jobs, became recognized for smart and simple design, and powerful brand. Once a cool, smooth, and confident Mac user, no one wants to trade in its easy-to-use product with a slick look, to go back to being an uptight geeky PC user of complex and styleless equipment. In essence, the previous statement is a fair summery of how Apple makes his customers happy and generates such impressive loyalty.

#### **Creating a Space for Customers to Experience the Brand**

Historically, mass retailers’ sales staff showed a poor knowledge of Apple’s products and technology. This made the task harder for Apple to have its highly differentiated product truly stand apart on the retail floor. Therefore Apple went along with the bold move of introducing its own retail stores. In one strategic move, they eliminated a problem and leveraged the opportunity to create an environment strictly devoted to the Apple Brand.

Apple stores do not run sales, or promotions, and new arrivals come in seldom. During the economic crisis many stores have shut down, yet Apple stores are usually crowded. Moreover, they manage to charge 500€ for an iPad and people feel lucky to purchase it. This is all part of a carefully crafted consumer purchase experience design.

The customer experience starts with the buildup of expectations. At Apple every new product launch is staged show. In every single country there is a widely known and foreseeable product shortage. This generates concert-like line ups at the retail outlet were loyal consumers wait hours or days, worrying perhaps they will not get the sought product right away. The frenzy is palpable and creates an assured buzz. The shortage of supply helps them build customer

expectations and reap the benefits through a price-skimming strategy until the next launch.

Not only is Apple successful at product launch, but it also effectively builds in customer “loyalty” as Apple's products are created to complement one another. For example an iPod downloads music via iTunes. This control over the entire user process strengthens customer loyalty since customers generally do not have to stray to find the desired solutions.

With that in mind, Apple stores were created as an inviting space where customers of all types and ages, PC or MAC, are invited to hang out and discover Apples’ products and unique technology. It is the ideal environment in which to get current and potential customers excited about the offering.

### **Bringing After-Sale Service to the Front Stage**

Apple's computer and mobile phone competitors follow the typical after-sale customer service strategy of outsourced call centers; the usual managerial decision made when service is viewed as something secondary instead of an integral part of the business and the customer experience. With this decision, comes along the typical complaints and annoyance that are associated to call centers staffed with underpaid agents.

When Apple devised its retail strategy the company’s clear and simple goal was to create stores that were unlike anything that customers associated with the computer industry. They hired experts from renowned fashion and department stores. As the experts began to investigate on which company consumers associated with the best customer service experience, many agreed that it occurred at the concierge desk of a hotel. Therefore, Apple decided to bring after-sales service to front stage and made it an integral part of its retail strategy and brand experience. The Genius Bar was born based on this idea of a friendly hotel concierge desk.

The employees are referred to as Geniuses, not just to outline that they are wise techies, but also to make a stand that smart people want to use Apple. The bar concept helps reassure uneasy customers.

The Geniuses will look at any Apple product for free, regardless of where it was purchased. They will help customers with matters not related to technical support, such as helping a client learn how to use an app. Geniuses will even try and fix software that is not from Apple. In a similar fashion to that of a hotel concierge, they simply attend and try to solve all requests.

There is no fee for using the Genius Bar service. A customer will only have to pay for repairs on the products with outdated warranties. But Geniuses are given much leeway to wave the fees if they deem appropriate. The vast majority of customers who walk into the Apple store come in for customer service. When combining customers with appoints and walk-ins, the Genius Bar is a busy place. This level of customer service is costly, but it’s all worth it since the service acts as a loss leader, attracting the crowds into the stores, leaving

consumers to browse while waiting to finally walk out after having purchased one more Apple product. In order for a customer to come in for tech support and walk out with an additional purchase, the experience has to be of a superior level.

In addition, to maintain a proper balance between waiting and being serviced, Apple has developed a location-based app that not only tracks the position of store employees, but also alerts them of a customer's arrival at the Genius Bar with a scheduled appointment.

The Apple store experience just proves how it is possible to move a customer from anticipating the experience (purchase of a new realizable item) to repeat purchase derived from an after-sales experience. This cycle is a very clear example of a carefully crafted Customer Experience in which all elements of the 7Ps play their part in a holistic fashion. In addition, the Genius Bar demonstrates that a goods manufacturer can leverage after-sales service to gain additional business income and differentiate itself from competitors.

## 5.2.2 Amazon

### **A Customer Obsessed Company with a Long Term Vision**

Jeff Bezos is the visionary leader behind e-commerce giant Amazon. Since the beginning of Amazon, Bezos aimed to turn a profit only in the long term. His immediate focus was dedicated to providing the customer a compelling value. His approach proved successful as Amazon stormed through the dot.com bubble burst to finally turn in a profit in 2001.<sup>18</sup>

Amazon.com originated as an online bookstore, and quickly started expanding its e-offering including music, mp3 downloads, software, video game, apparel, furniture, food, toys, and jewelry. Amazon also expanded into the production of consumer goods electronics with the Kindle suite composed of e-books and tablets. Last but not least, they are also a major provider of cloud computing services.

Amazon's particular philosophy on customer experience and customer service is Bezos' own personal view. He claims:

"Customer experience includes having the lowest price, having the fastest delivery, having it reliable enough so that you don't need to contact [anyone]. Then you save customer service for those truly unusual situations. You know, I got my book and it's missing pages 10 pages."<sup>19</sup>

This philosophy consists of three simple elements<sup>20</sup>, which all Amazon employees adhere to:

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<sup>18</sup> WIKIPEDIA, Amazon.com, <http://en.wikipedia.org/wiki/Amazon.com> (Last consulted in August 2012)

<sup>19</sup> BUSINESSWEEK, Heather Green, How Amazon Aims to Keep You Clicking. 2009.

< <http://www.businessweek.com/stories/2009-02-18/how-amazon-aims-to-keep-you-clicking>> (Last consulted in August 2012)

<sup>20</sup> BUSINESSWEEK, Brad Stone, What's in Amazon Box? Instant Gratification. 2010.

< [http://www.businessweek.com/magazine/content/10\\_49/b4206039292096.htm](http://www.businessweek.com/magazine/content/10_49/b4206039292096.htm)>

1. Perfect service in order to prevent a customer service contact.
2. If we did something wrong, then please contact us and we'll make it right.
3. Contact us for anything, we appreciate the interaction and wish to build a human connection with you.

These three rules have earned Amazon a strong reputation for impeccable service by giving customers what they ask for, without ever needing to talk to an employee. As an online store, Amazon needs no sales force. To the eye of the customer the order is filed in a few mouse clicks and the goods are delivered at your door in no time. This cycle happens over and over again with the Amazon worldwide customer base.

At Amazon, customer service is what happens when some other element of the customer experience has failed. Nonetheless, when something goes wrong, customer service employees come into play. Amazon's CEO makes sure that customer service remains an exception rather than the rule. To this end, Amazon carefully screens all customers' requests and complaints in order to uncover potential improvements in the customer experience. This is a reason why Amazon is considered a leading company in providing customer satisfaction, and regularly appears in top position of Customer Service Rankings.

## **Customer Experience Front Stage Improvements**

### *Prime - An Unusual Customer Loyalty Program*

In general, loyalty programs are geared at rewarding a customer's loyal purchase behavior with rewards such as points, discounts, special offers, etc. in hopes to further increase future purchases. Thus, when Amazon first presented its Prime Loyalty program people were surprised.

Amazon Prime is a free shipping service, which guarantees delivery of products within two days for an annual fee of \$79. This is not your typical loyalty program. In many ways, it is much more ingenious and cost effective.

Amazon detected that often times, casual shoppers were discouraged to complete purchase process because of the shipping fees. For a small amount, Prime subscribers see this barrier removed. The instant gratification of magically receiving at your door step anything purchased from the convenience of your living room within just two days should not be underestimated. For Amazon, it has effectively transformed many casual shoppers into heavy users. As a result of Prime, many customers have taken the habit of not purchasing anything before first checking its availability in Amazon.

Prime also proved to be exceedingly difficult for competitors to copy. Whereas for Amazon it plainly allowed them to exploit its wide product selection, low prices, network of third-party merchants, and finely tuned distribution system.

Although Prime was highly criticized at its launch, it has been said to be the main reason Amazon's sales grew 30 percent<sup>21</sup> during the recession while other retailers failed. There are an estimated 4 million members of Prime customers in the U.S. This is a small portion of Amazon's 121 million active buyers worldwide.<sup>22</sup> Amazon calculates that the average Prime customer spend is approximately \$400 prior to joining the program, and increases by \$500 in the following year. This increased consumption is mainly driven by an increased consumption of other product lines.

Prime is a perfect example of how a carefully identified and improved service element can be leveraged to both enhance the customer experience and build a sustainable competitive advantage that is complex to replicate. Furthermore, it demonstrates that elements outside of the core product, such as delivery, hold great potential has a source of additional income generation, and customer loyalty.

At Amazon, innovation is encouraged and can come from anyone within or outside of the company. Ideas are enthusiastically screened by management. Prime saw the day through one management most common feedback medium: a suggestion box. At the time, Amazon had been searching for the right loyalty program for years without any conclusive ideas. It is an Amazon software engineer that made the suggestion through Amazon's Intranet.

When Bezos saw the potential behind the free shipping idea, he reunited a small team of employees with given authority to steer the company's engineers and resources. He told them to have Prime ready to for a rollout in just two months. Bezos then personally oversaw the development of the idea and met with the group three times a week during that span. Pricing was a challenge because of the lack of information and models, so the team trivially chose \$79 because it was a prime number. In the end, the new initiative reached breakeven point in a record time of three months. The launch was announced by Bezos at the company's earnings announcements to take advantage of the free publicity.

The story of Prime's creation shows the importance of organizational factors in order for innovation to occur. First, Amazon's management has a mindset open to innovation. Moreover, it is committed with providing customers with a compelling offer. Second, it has an internal system to promote and screen idea generation. Third, it is willing to re-organize temporarily its structure in order to assign the right people to the task and also dedicates the adequate financial resources. All of these are factors greatly impact a company's ability to generate and implement innovative ideas.

## **Customer Experience Front Stage Improvements**

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21 BUSINESSWEEK, Brad Stone, What's in Amazon Box? Instant Gratification. 2010.

< [http://www.businessweek.com/magazine/content/10\\_49/b4206039292096.htm](http://www.businessweek.com/magazine/content/10_49/b4206039292096.htm)> (Last consulted in August 2012)

22 BUSINESSWEEK, Brad Stone, What's in Amazon Box? Instant Gratification. 2010.

< [http://www.businessweek.com/magazine/content/10\\_49/b4206039292096.htm](http://www.businessweek.com/magazine/content/10_49/b4206039292096.htm)>

(Last consulted in August 2012)

### *Amazon Lockers – Not Home? Don't worry!*

Another Gap Amazon detected in its customer experience was failed deliveries. When customers arrive home to find out they missed the package delivery frustrations arise. Usually a customer service call is placed. This generates additional cost for Amazon. But dissatisfied customers may also opt for switching to a competitor, or getting a replacement item. This was an important risk that had to be mitigated.

For that reason, Amazon has created a network of convenience, grocery and drugstore outlets that perform the function of the doormen (Amazon pays a small rent for the floor space). During the purchase process, the customer selects the outlet closest to its location and receives a notice with the locker number where his book will be delivered. The extended opening hours of the selected outlets make it a convenient solution for the customer. For Amazon, the lower rates courier service charge for delivering multiple packages to a business address in comparison to the rates of a single package residential delivery represent a considerable saving. In the end, it is a win-win situation.

In this instance, the Amazon locker program illustrates how a service innovation in the customer experience can both prevent customer attrition while improving the bottom line profits.

A common management myth is that service is expensive. Yet, customer experience leaders such as Amazon demonstrate that when you invest in the right customer service tools and systems, interesting returns can be generated, both in terms of additional income generation and cost savings.

### **Customer Experience Back Stage Improvements**

When shopping online at Amazon, the customer can purchase directly from Amazon or from a third-party merchant. Amazon want to ensure the quality of service from its outside merchants is up to the same level as its own. To do so, customers can rate their experience with merchants, and view comments.

In addition, Amazon also has set up many internal safeguards to track the behavior of merchants. For example, merchants must use the Amazon site-mail service to communicate with customers. That way, Amazon can monitor conversations. Amazon also uses metrics to track merchant's service quality such as customer complaints frequency and order cancelation rate. All merchants with a ratio of problematic orders of above 1% will no longer be allowed to work with Amazon.

So, Amazon had in place a system that allowed him to readily monitor all merchants' activity and key metric to weed out poor performers. Many corporations would be content with that process. However, Amazon pushed the boundaries, making important adjustments to its backstage operations in order to continuously improve its customer experience.

### *Milk Run – Hot Items are Always in Stock*

At Christmas times, Amazon suffered a stock rupture of a highly demanded gift item. The idea for the Milk Run originated from the customer's complaints received. The Milk Run program was developed to ensure hot items are in stock and ready for quick delivery. What Milk Run does is to send Amazon's own trucks out to pick up top-selling goods, instead of waiting for suppliers to deliver to the warehouses. The result is a reduction in the number of late or incomplete orders received.

The program implies an increase in Amazon's operational costs which is often times not compensated by incremental sales. Yet, Bezos rightly so views this type of backstage process has an essential part of providing the best customer experience. Bezos prefers invest in strengthening its service experience rather than risk losing customers over a shortage situation.

### *Fulfillment by Amazon – Ensuring a Seamless Experience*

Fulfillment by Amazon is another initiative aimed at further refining the experience with outside merchants. What may seem as a program to help small merchants is really Amazon's way to ensure that a backstage process with a key impact on customer satisfaction is been properly attended.

Merchant signed on the Fulfillment by Amazon program just have to send a large quantity of their goods to Amazon's warehouses, and can forget about the rest. Amazon takes the orders online, prepares the package for delivery, answers customers questions, and processes returns. Merchants must pay to enroll en the Fulfillment by Amazon program. Nonetheless, the program has generated strong enthusiasm amongst merchants. A merchant, DuGally, is an advocate of the Fulfillment by Amazon because it produces results.

"... Sales are up 40% on the items sold through the program, and return rates are down 70%."<sup>23</sup>

DuGally also expects to save between \$550,000 and \$700,000 annually, primarily because Amazon can negotiate lower shipping rates.<sup>24</sup>

Helping merchants, the direct online competition which continuously undercuts Amazon's price, to be more competitive can seem counterintuitive. However to Amazon it is a long-term strategic move to ensure a quality customer experience that is constantly improved made more consistent and reliable. For Amazon, selling a book is secondary to controlling the shopping experience. The later is Amazon's core competence, and competitive edge.

## **Customer Experience Service Innovation**

### *Kindle Direct Publisher – Embracing the Peer2Peer Beliefs*

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23 BUSSINESWEEK, Heather Green, How Amazon Aims to Keep You Clicking. 2009.

< <http://www.businessweek.com/stories/2009-02-18/how-amazon-aims-to-keep-you-clicking>> (Last consulted in August 2012)

24 BUSSINESWEEK, Heather Green, How Amazon Aims to Keep You Clicking. 2009.

< <http://www.businessweek.com/stories/2009-02-18/how-amazon-aims-to-keep-you-clicking>> (Last consulted in August 2012)

Internet's early days giants, such as Amazon, belonged to e-commerce. With all the hype surrounding social media, new Internet giants such as Facebook, Tweeter, and LinkedIn have emerged. Along with it, there has been an expectation to see how first generations giants would react. Jeff Bezos was very clear on the matter: Amazon has thought about how to capitalize on the use of social networks, however the initiatives tested did not prove to be conclusive, Bezos concluded that just because something is popular, it does not mean Amazon needs to take a me too approach to social media.

Bezos also claims that the most radical of inventions are often those that empower others to unleash their creativity to pursue their dreams. Consequently, Amazon chose a path much more coherent with its innovative nature. Amazon built a service offering that combines its core competency of providing a superior shopping experience, with another side of the social revolution: Peer to Peer networks.

Kindle Direct Publishing is a powerful self-service platform that allows people to publish their own book on Amazon's Kindle Store. Also, to Bezos, it is a platform that allows thousands of people to daringly experiment and accomplish things that would otherwise be impossible or impractical. All parties who interact in this platform win: the readers, the authors.

Kindle Direct Publishing has made it possible for Authors to bypass the apprehended editorial house's reject. Now the public can judge the worth of their work. New ideas that before and would not have been considered enough commercial are free to see the day. Peers benefit by accessing a greater diversity of literature.

Kindle Direct Publishing is an attractive platform for authors as it allows them to keep their copyrights, and provides them the liberty to publish on their own schedule. The authors may receive royalties up to 70%, a considerable difference from traditional publisher's terms and conditions.<sup>25</sup> Some authors have gone from being completely anonymous to selling thousands of copies.

Not only does Amazon now allow its customer to buy everything he dreams of on his site, but he also allows him to make his dreams come true. Kindle Direct Publishing is a new service introduction that provides the user the highly emotional and intense experience of becoming a published (and remunerated) author. Thus, Amazon was capable to capitalize on what was an almost natural move for him (Kindle Direct Publishing is aligned with its core competencies of shopping experience and webs services) to bring the customers experience to a whole new level.

Finally, the Kindle Direct Publishing revolution is also an example of the ongoing disintermediation that is occurring in sectors where not so long ago, consumers could never have imagined their disappearance. It is interesting to outline that anyone one company, the editorial house or Amazon, could have ultimately implemented such a platform. Yet, when a radical innovation occurs,

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25 SECURITIES AND EXCHANGE COMMISSION, WASHINGTON, D.C. 20549, FORM 8-K, CURRENT REPORT, PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 , APRIL 13, 2012, AMAZON.COM, INC. , 2011 Letter to Shareholders



one that implies a change of business model, it striking to see how the traditional player typically takes a defensive stance instead of innovating to maintain and defend his market position.

## 5.3 Travel

This section explores how management of an airline and a hotel companies create, instill, and manage a customer service culture that guarantees a seamless customer experience. This in turn, results in a greater differentiation and improved competitive edge as cultures are complex to imitate.

### 5.3.1 Southwest Airlines

Airline carriers are struggling to keep operating costs low and maintain profitability margins. There is an ongoing movement amongst them to turn to new technologies and apps in order to substitute staff by providing the customer with better information regarding his trip. Some Airlines even dream of a staffless airport. Conversely, Southwest believes that new technologies and mobile apps must be used as a complement to a people-driven customer service strategy.

Southwest is the largest low-cost airline carrier in the United States. It is also unquestionably the customer service satisfaction champion of its category. They are the Airline that has reported the lowest number of customer complaints since the Department of Transportation started tracking customer satisfaction back in 1986.<sup>26</sup>

#### **More than Transportation – An Experience Purveyor**

Southwest prides itself with the fact that, unlike other carriers that act more like pure transportation companies, they are the purveyors of an experience. To make that claim come to life, they differentiate themselves on customer service.

The combination of running low-cost operations combined with delivering great people-driven customer service is not the most frequent combination. Yet, up till now, Southwest has been one of America's few consistently profitable airlines. This demonstrates that selling no-frills flights is compatible with offering a great customer experience.

Other low-cost carriers, such as AirTran and JetBlue, have tried and failed at copying Southwest's strategy. It is much more complex to replicate the intangible elements that make service so great at Southwest than it is to run low cost operations. Southwest's focus on customer satisfaction is their secret of their competitive edge.

#### **Intangible Elements of the Corporate Culture**

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<sup>26</sup> Wikipedia, Southwest airlines, [http://en.wikipedia.org/wiki/Southwest\\_airlines](http://en.wikipedia.org/wiki/Southwest_airlines) (Last consulted in August 2012)

Southwest tells its employees that they are in the customer service industry. It just so casually happens that they fly airplanes. At Southwest, customer service has been the corporate mindset ever since its creation in the late 1960ies.<sup>27</sup>

Southwest's customer service principles, although apparently obvious, are tricky to replicate. This is what keeps Southwest ahead of the game in a difficult sector. It is also an example of effective interactions between the actors and the audience during the experience, demonstrating how important it is to have the right managerial conditions for it to occur.

### *Hire for Attitude, Train for Skills*

Southwest overlooks an applicant's background, customer service experience is not mandatory. Instead, they seek the right attitude. They look for fun-loving humble, altruistic, compassionate mindsets that can be tough when needed. How to deliver great customer service is something they will be taught on the job. Front line employees are also encouraged to report if they saw any applicant revealing a rude behavior on his way in or out of an interview. Building a service force with people who all fit the right mentality, allows Southwest to create the desired the mood for service delivery.

On their first day, Southwest employees undergo customer culture immersion. They go on a scavenger hunt around the Headquarters to learn all the basics and watch videos of ex-Southwest customers. Southwest also explains to employees key metrics that make them realize the importance of their job in relation to the company's earnings. For example, a mere five passengers per plane makes the difference between making a profit and losing money.<sup>28</sup> Making service employees see how their work impacts the bottom line provides them with a greater sense of responsibility.

### *Engage your Employees and Customers*

Even in the most carefully designed customer experience, sometimes things do not go as intended. That is why Southwest uses empowerment as a tool to ensure front stage employees are given the leeway to do the right thing. For empowerment to work, the company must trust its employees' ability to make decisions under unscripted scenarios. At Southwest, their hiring and training philosophy bring them that confidence.

Everything is matter of perspective. Southwest asks its employees to view and imagine customers as if they were friends or family. This way, they noticed that people usually go to greater lengths to please customers. As a result of this familiar approach, customers are sent birth-day cards, invited to company events, etc. It is quite common for employees and frequent fliers to be on a first name basis. All of which creates an emotional connection.

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<sup>27</sup> Wikipedia, Southwest airlines, [http://en.wikipedia.org/wiki/Southwest\\_airlines](http://en.wikipedia.org/wiki/Southwest_airlines) (Last consulted in August 2012)

<sup>28</sup> PARATURE. Lessons in Loyalty: How Southwest Airlines Does it – An Insider's Point of View. San Francisco. USA. 2010

Southwest consistently seeks to increase positive interactions between employees and customers. A very successful employee recognition program was actually based on Southwest's decision to let the customers take part in the fun. Southwest's most frequent fliers were given Southwest "money" and asked to give an employee a buck if they saw him going above and beyond. At the end of program employees could exchange the money for items. In a similar fashion, from time to time employees are given coupons and asked to give it any customer that has a nice gesture towards another employee or passenger. These types of programs are great tools to encourage the desired behaviors in the employees, engage customer, and strengthen customer loyalty.

### *Have Fun*

Southwest feels that if people have fun at work; they will do their job better. After all, a smile and positive attitudes are contagious. So when stressful situations occur, employees find funny ways to distract the passenger and relax the atmosphere. For example, they may play games at the boarding gate or give out coupons to people who took their shoes off and have a hole in their sock. What may seem like silly gestures are very effective tactics to prevent tension from buildup to later unleash itself in a larger problem. It even makes customer experience more special, since customers who, under normal conditions would never have talked to one another, have now created a bond.

## **Elements of the Organizational Structure**

The seamless customer experience at Southwest could not be achieved without a passionate application of the same philosophy at Headquarters. Southwest's management takes customer service so seriously they have created key roles to oversee the design and creation of the experience.

### *Vice President of Customers*

Southwest's Management was quick to recognize that in order to maintain the customer experience at the center of their strategy they needed a central role to oversee the complete initiative at the highest level. Southwest was actually the first company to create the Vice President of Customers position. An example of a management tactic implemented to ensure a customer centric view is the Mom committee created to review operational failures. The rule of thumb to make to evaluate an issue in this committee is to ask yourself if your Mom had been on that plane, would you be satisfied with the treatment she received. The VPC role is the reason why Southwest was able to instill throughout its organization a zeal for customer service.

### *Head of Proactive Customer Service*

Southwest has a Head of Proactive Customer of Service. Together with a team of four, he is responsible for coordinating timely information, guidance, and support when disruptions happen.<sup>29</sup> His team also explores ways to increase

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29 EXECUTIVE STREET, David Faye, Lessons in Customer Service from Southwest Airlines. 2011.

efficiency in internal and external communication/action, operate more efficiently and implement better customer accommodations. An example of their work is proactively sending personalized apology emails to clients who have suffered service disruptions to offer them compensation.

With the creation of this department, Southwest is further strengthening its relation with customer and building up their loyalty. In addition, there are adjusting their internal structure to effectively respond to consumers increasing demand for trust and transparency. This is a move that consolidates their customer leadership position.

### 5.3.2 Four Seasons

Four Seasons Hotels is a Canadian based international luxury, five-star hotel management company. Renowned publications such as Travel&Leisure rank the Four Seasons' 85 hotels among the top luxury hotels worldwide. Moreover, Four Seasons has made it onto Fortune's ranking of the *100 Best Companies to Work For*, every year since first edition in 1998.<sup>30</sup> A famous saying states that a city has become a truly international destination when a Four Seasons opens.

Aside from its established reputation of refinement and luxury, Four Seasons is famous amongst the business world for its approach to customer service, and tactfully designed customer experiences. Four Seasons has been and remains an inspiration to companies from all types of industries seeking to improve service.

Isidore Sharp, the founder of Four Seasons is responsible for having introduced many innovations to the hotel industry (before him hotel rooms did not have shampoos and other goods), most of which have become a standard nowadays. The service mindset he instilled at Four Seasons, and which perpetuates today, is his most powerful legacy. Competitors have copied elements of the service, but they failed to replicate the experience.

### **An Integrative Thinker Revolutionizes the Hotel Industry**

Back in 1961 Sharp was considering opening his first hotel. At the time there were only two options available: build a small motel with less than 200 rooms and simple facilities, or a large downtown hotel with more than 750 rooms and high class services. Sharp went with the first option because of the lower capital requirements.

A decade later, Sharp began to expand with a clear vision in mind: "to combine the best of the small hotel with the best of the large hotel."<sup>31</sup> Sharp dreamed of

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< <http://blog.vistage.com/communication/lessons-in-customer-service-from-southwest-airlines/>>

(Last consulted in August 2012)

<sup>30</sup> WIKIPEDIA Four Season, [http://en.wikipedia.org/wiki/Four\\_Seasons\\_Hotels\\_and\\_Resorts](http://en.wikipedia.org/wiki/Four_Seasons_Hotels_and_Resorts)

<sup>31</sup> BUSINESSWEEK, Roger L. Martin, *Creating the Four Seasons Difference*. 2008.

< <http://www.businessweek.com/stories/2008-01-23/creating-the-four-seasons-differencebusinessweek-business-news-stock-market-and-financial-advice>>

(Last consulted in August 2012)

a medium sized hotel, that would be just big enough to afford an extensive array of services, yet small enough to keep a sense of intimacy and personalized service.

At a time, the hotel sector defined luxury as lavish rooms and facility settings. In order to pay for the facilities, hotel size was considered a pre-requisite. Sharp reasoned that if his hotels offered a clearly superior service than its competitors, it could charge a sizeable premium, thereby reaching the desired revenue level to enable him to offer top-of-the-line amenities. The next step was to create that kind of differentiated service. Sharp was able to foresee that differentiating Four Seasons on service rather than on product (more luxurious rooms) led to additional income generation.

## **Founding Principals of Customer Service**

### *Caring About Others*

At a time when competitors treated its staff as disposal equipment, Sharp saw a direct relationship between the way staff was treated and the way they attended customers. With that in mind, Sharp elaborated his credo, the Golden Rule:

"To deal with others—partners, customers, coworkers, everyone—as we would want them to deal with us."

His philosophy on people management starts with the beliefs that it is best to hire attitude over experience. Sharp sought employees who genially derive great pleasure from going the extra distance for a guest. From this moment on, Four Season would take care of the training, establish career paths, and promote from within. In addition, Sharp paid as much attention to employee complaints as customer complaints. He empowered his employees and encouraged self discipline. In returned he asked for accountability and setting the bar for performance high.

The Golden Rule is present in every part of hotel operations. All employees at Four Season know that they are not just a member of the customer service department, but rather that they are in charge of it. This way, employees feel almost like they own the hotel, and act with greater passion and enthusiasm. The omnipresence of the culture and Golden Rule, combined with employee empowerment and accountability results in a strong service culture.

### *The Concierge, the Heart of the Hotel Spirit*

Four Seasons' customer service spirit is embedded in the figure of the Concierge who attends the customer. The concierge desk is a central point where customers can bring up any kind of question, request, or issue. Anything from restaurant reservations, to asking help to urgently replace those shoes you left behind. Four Seasons concierges are all members of the international association of professional concierges *Les Clefs d'Or* (or working towards their accreditation).

Countless different situations occur at the concierge desk, many of them unforeseeable. Because of Four Seasons' elite training and strong service culture, they have managed to ensure customers worldwide consistently receive a highly personalized, professional, caring and reassuring treatment.

#### *Other Factors Ensuring the Overall Customer Experience*

Although the Concierge is a central point of a stay at Four Seasons, many other factors come into play to ensure a seamless experience from end to begin. The following is an excerpt of some elements to illustrate how different aspects, which together all have an impact on the overall customer experience.

- **Back Stage Support:** In addition to daily cleaning, The Perfect Room Program takes a room out of service every six months to refresh it. The process takes one to two days per room and performs an 82 point inventory check of the room. If customer reports a Guest Activated Problem housekeeping responds in no more than 15 minutes.
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- **Managerial Attention:** Some employees are designated as Direct Line Members. These front stage employees are responsible to collect their colleagues' feedback. They then have regular access to the general manager to discuss virtually anything.
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- **Great Beginnings and Endings:** The bellman is the first person you see coming in and the last one walking out. He is responsible to learn about the guests preferences and the best way of doing so is to look for sudden clues when greeting customers at the door or escorting them to their room. That's why Four Seasons bellmen consider themselves detectives. They are also given a lot of latitude to correct problems as they occur without having to ask for management's approval.
- **Building Expectations:** Four Seasons is monitoring social sites such as Tweeter to help them better fulfill customer expectations. For example, prior to embarking on a flight, a customer posts a tweet where he mentions a Four Seasons hotel and expresses his desire to relax at the Spa upon his arrival. When the customer landed, the establishment had replied asking if they should make a reservation.

The previous examples, illustrate how Four Season's objective to deliver a personalized attention is omnipresent, from beginning to end, in all elements that either directly or indirectly impact the customer experience, leading to their world wide recognition.

## 5.4 Financial Services

Banking traditional institutions are undergoing ever increasing regulatory requirements to help bridge a gap in transparency and trust. On one hand, wary customers are increasingly more reluctant of complex product. On the other hand, banks are apprehensive of regulation as it difficults product innovation. This section explores how a traditional bank focused its innovation efforts on

peripheral elements, leveraging and managing service improvements strategically to reinforce their customer experience, differentiate themselves, and build a competitive edge.

### 5.4.1 Commerce Bank<sup>32</sup>

Vernon Hill, a university graduate and fast-food restaurant franchise owner, founded Commerce Bank in the 1970s in New Jersey at the age of 27. Hill was compelled with the convenience of fast food chains and sought to apply the concept to banking, in the 33 years he was president and CEO, the bank went from one to 435 branches.<sup>33</sup>

#### **The Aspiration**

Vernon Hill's inspiration is America's giant retailers and fast-food chains. In fact, McDonald's has been such an influence for him that *Wall Street Journal* once nicknamed him McBanker. Hill relentlessly tells everyone that Commerce is not in the Banking business, it is in the retail business. As such, its objective is to become a powerful retailer. As a result, "banking" is a word frowned upon at Commerce, employees are retailers, not bankers, and they work in stores, not branches.

Hill believes that the main problem with banks is that they abuse customers on a daily basis. Conversely, Commerce Bank is America's most convenient bank and its obsession is to "wow" its customers.

To summarize, Hill chose retailing as the bases for his business model to replicate their efficiency in selecting locations, designing retail floor layouts and operational processes. However, Hill selected a superior "wow" and convenient customer experience to differentiate itself from competitors.

This proved to be a powerful positioning as it fits particularly well consumers' expectations of simplicity, and trust. The following section explores how "wow" service and convenience are embedded at all stages of Commerce's customer experience, and how management uses culture as a tool to seal it.

#### **Building Customers Expectations Prior to the Experience**

Hill learned from McDonald's how to create interest prior to opening a new store. Approximately five to six weeks prior to an opening, the store's future staff runs daily buzz blitzes in the surrounding area and chats with pedestrians. Meanwhile, the future store manager visits local businesses. All are spreading the word that an unusual bank, opened seven days a week, is about to open in the neighborhood. Not only does Commerce build up expectations, but it also creates a personal link with potential customers early on.

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<sup>32</sup> Commerce Bank was sold to TD Bank in 2007, after its CEO Vernon Hill was forced to resign as result established governance preventing doing business with firms under the control of family. The architectural design firm overseeing Commerce Bank's outlets was run by Hill's wife. This well known situation was the object of critics for many years prior to Hill's departure. TD Bank is one of America's 10 largest banks. TD Bank's claim is now that of previously Commerce Bank: "America's Most Convenient Bank".  
<sup>33</sup> WIKIPEDIA, Commerce Bank, [http://en.wikipedia.org/wiki/Commerce\\_Bancorp](http://en.wikipedia.org/wiki/Commerce_Bancorp)

The actual opening event is like a carnival in which about 3,000 people participate in family activities.

## **Creating a Different Kind of Experience - Convenience**

### *Extended Opening Hours*

At Commerce, Sunday morning queues are not meant for the ATM (Automated Teller Machine), the store actually opens. Whereas traditional banking hours are Monday through Friday, 9-to-3 (or 5); Commerce is open seven days a week. On week days they are open from 7:30 am to 8:00 pm, and on weekends they are open for most of the day. Some locations get so busy on Fridays that Commerce leaves the drive-through window service open until midnight. Their 10-minute rule even goes a step further: all stores open 10 minutes early and close 10 minutes late as an additional courtesy for early birds and procrastinators.

### *Friendly & Attentive Service*

Commerce wants drive more store traffic because they believe relationships with customers are built in the store. It starts with a checking account and leads to a mortgage. Commerce is strongly commitment to friendly and attentive service because it builds trust and leads to repeat business.

### *The Store Atmosphere*

On the outside, Commerce stores have a white-brick exterior with a black metal roof. On the inside there are black-and-white marble, floor-to-ceiling glass windows, and historic murals on display. To make an already attractive store even more appealing to enter, Commerce always has lollipops and dog biscuits, as well as gifts for clients opening a new no-frills account. Some stores even have tellers take turns greeting customers inside the front door.

Hill constantly looks for new ways to enhance the customer experience. For example, when Hill learned that competitors began to refuse, or charge, customers to take in large numbers of coins he decided to make an investment of \$10 million to take in coins. The Penny Arcade is a bright red machine located in the lobby where customers can drop their loose change and then pick up a receipt with the total value. The customer gives the receipt to the teller and receives the full amount in cash. Not only is the Penny Arcade convenient, it is also fun to use and that is its real appeal. Everyone wants to use it, and customers waiting in line amusingly observe people with curious recipients using the machine. In a year, the Penny Arcades handled 750,000 transactions for a total of \$71.7 million.

### *Alternative Ways to Do your Transactions*

Commerce offers busy customers a drive-thru option, just like fast-food restaurants. They also have ATMs equipped with phones in case a customer wants to contact their 24/7 call center. Moreover, their online site is an award-



winning one. Commerce also regularly improve the online customer experience with new features such as “check view” which allows customers to see an image of the front and back of a check a day after it has been deposited.

## **Culture – an Enabler to Ensure “wow” Service**

Culture is a prime concern for Commerce CEO, because it is the way employees are taught to embrace how service is done at Commerce: “wow” service. If Commerce would not “wow” constantly its customers, it would be just another Bank. They define “wow” as that “feeling that you give and get.”

Therefore, the “wow” culture receives top managerial attention. Commerce Bank has a Vice President of the Wow Department in charge of overseeing the customer experience. The ultimate keeper of the bank's culture is the character Dr.Wow. He reviews all employee and customer feedback regarding Commerce’s service. This feedback is used to detect potential improvements in the customer experience.

### *Hiring and Training*

Building a transcending culture starts with hiring the right people. Commerce looks for people who are attentive and without pretensions.

At Commerce University, every new employee goes through a one-day course called Traditions. The course is part game show, part training session, part common sense. It teaches new recruits to forget the way they delivered their skills at other banks. After graduating, new recruits enter the Wow Team.

### *Aligning Employees Incentives with Objectives*

Commerce has many tools to “wow” its employees and ensure they remain focused on wowing customers. Some eccentric examples include:

- On Red Fridays, the Wow Patrol, along with Commerce’s mascot Mr. C, visit stores and take photographs of employees wearing so much red that the setting resembles a Christmas party. Some customers join in the fun.
- Kill a Stupid Rule program rewards employees with \$50 if they identify and report a rule that prevents from wowing customers.
- When customers send Dr.Wow feedback on outstanding service, he forwards a special congratulatory note to that employee. Some instances require more, here is a powerful example of the kinds of return “wow” service can generate a company.

*When members of a family in New York wrote to the bank about the "great service" that employees Theodocia Edwards and Dean Mitchell provided, Manhattan senior retail officer Daniel DelRocilli decided to do something special. He visited the branch and presented them with a bouquet of red balloons that said "Wow!" and led the branch staff in a cheer that amused the customers looking on: "We are from the Wow Patrol/And we are here to say/Dean deserves a big wow cheer/for wowing every day!" Initially, the family members opened an account with Edwards for \$10,000. "They weren't happy with Chase and wanted to test us out," says Mitchell, who began looking after them as if he were their personal banker. He remembered the*

*names of all nine siblings and even brought them a souvenir from his vacation to Argentina. They started bringing him coffee and calling to make sure that he was working before they came in. At first, he had no idea how much they were worth. The day that DeIRoccilli arrived with balloons, the family had wired Commerce \$1 million.<sup>34</sup>*

- Twice a week, mystery shoppers audit service standards and store conditions. Successful audits lead to a "wow" rating. Throughout the year, the branches compete based on these scores and try to out-wow another.
- When a store becomes so good at wowing customers that it makes a nearby competitor's branch close, the staff is awarded \$5,000.

## **To conclude**

The case of Commerce Bank is an excellent example of how looking outside your industry for inspiration can lead to great ideas doing great business.

It may seem strange for a business in such a traditional and serious field as Banking to act in such silly ways. Nonetheless, by being wowy, Hill defied the omnipresent business model in his field. Commerce Bank proved that it is possible to be a highly efficient and profitable company while by providing superior customer service. In fact, it was thanks to its focus on a well differentiated convenient customer experience that Commerce Bank gained its competitive edge.

## **5.5 Different Ways of Capitalizing on Customer Experience**

The customer experience is composed of all interactions that occur between the customer and the company. It starts before the customer even comes into contact with the company to evaluate and buy the goods or services (building up expectations). It then moves on to the shopping experience, whether in a physical place or online, with the purchase transaction and/or service consumption. It finalizes with the customer's evaluation of goods or services consumed and the company's post sales interactions.

At each stage there are a myriad of contact points, or moments, all of which impact the overall experience and customer's preference to deal with that company over any competitors, thus leading to increased customer loyalty. Companies who master this process are able to align all back office and internal process to ensure a superior experience that was carefully designed to make the customer enter the cycle and repeat over and over.

The purpose of the thesis is to understand that by differentiating itself on providing a superior customer experience, a company gains multiple benefits which provide it an edge over the competition. To do so, it was critical to first understand the stages and elements that compose the customer experience, as

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<sup>34</sup> FAST COMPANY, Chuck Salter, Customer Service: Commerce Bank. 2002.

< <http://www.fastcompany.com/44869/customer-service-commerce-bank>>

(Last consulted in August 2012)

well as overcome any preconceived notion, often present in product-oriented companies, that service is something secondary to achieving the business goals, therefore minimizing resources and attention it receives to simply provide something correct.

This is why also why the thesis purposely has taken a high-level review of different business cases, instead of entering in a thorough analysis of a single's company. Thereby, ensuring the analysis and reflection is maintained at a big picture level and provides the reader a wider perspective of cross-industry insight that will enable him to rethink the overall strategy and approach to customer experience in insurance. The purpose of the thesis is not to provide a review of individual contact points as such a detailed view easily leads to losing sight of the forest for the trees. Furthermore, as previously seen, while replicating a series of service contact points is relatively easy, this does not lead to achieving an overall superior customer experience, because seamless customer experiences are the result of many more complex interrelations, something difficult to replicate.

This section is the summary of the customer experience strategies adopted by the companies in the industries of retailing, traveling, and financial services; in order to understand how their dedication to creating and constantly improving the customer experience provides them a competitive edge and greater financial rewards.

### **It Starts with Top Management Dedication**

To develop this thesis, companies were selected for being recognized providers of superior customer experience in their respective fields. The only exception is McDonalds which was selected as a precursor whose systemized approach to designing and planning service delivery from a manufacturer's perspective has been an inspiration to many other companies.

Leadership was never a criteria. However, the one common factor amongst all these companies is that there was a leader in top management obsessed with the customer experience. In most instances it was the founder and president, but not in all cases. This figure proves to be the catalyst that lays the path for everything that is to come thereafter. This is because achieving a seamless customer experience requires a holistic approach and alignment from the entire company, something difficult to achieve.

### **Retail**

Retailers rely on their ability to provide superior customer experiences to generate repeat purchase.

Traditionally, manufacturers of electronic consumer goods have relied on third parties both to sell their products and provide after sales service. Apple, felt its consumer experience was hindered. Its technology is so different from others, that third-party's staff, who must be knowledgeable on product and technology of many companies, simply could not effectively transmit to customers the true

difference and benefits of Apple product. Therefore Apple made the bold move to open its own stores to take control, not only of the purchase experience, but also the after-sales service. Customers appreciated the personalized approach to service. Moreover, Apple strategically transformed after-sales service into a loss leader to drive more store traffic and generate more sales.

Conversely, online retailers' main challenge in consumer experience is to provide a simple, intuitive, and trust-educing shopping experience without any human contact. Amazon is obsessed with providing the best shopping experience. Thus, they compulsively and proactively review the entire process to improve it. Recent improvements have focused on the elements peripheral to the actual purchase, such as a self-run fulfillment program to raise the quality of its merchants and removing barriers to delivery; leading to cost savings and greater consumer –merchant satisfaction. Then, they leveraged delivery as a loyalty program customer, increasing consumption drastically. Last but not least, Amazon put its technology at work for its customers, allowing them to achieve their dreams of becoming published authors, with attractive royalty conditions.

## **Travel**

Airlines and hotels are both experiential services, where the challenge lies in delivering a uniform quality of the desired service level, in an environment where staff's mood is easily altered, to ensure that clients will repeat the experience. In both cases seen, the company's strong service culture guaranteed the vital alignment between front and back stages to ensure operational efficiency and superior service delivery. For Southwest, the customer loyalty derived from service allows them to reach desired capacity levels and maintain profit margins over time. For Four Seasons, the perceived high quality service allows them to charge substantial premiums in room rates.

## **Financial Services**

Banking is a service industry whose challenge resides in gaining customer's trust to manage their assets and guide them with important financial decisions regarding their lives. Commerce Bank saw the opportunity to build a bank that brought convenience to customers instead of imposing its own "stupid" rules. To do so, Commerce Bank combined both a strong service culture and consumer experience retailing tactics to charm ("wow") his customers into loyalty and rapidly gain a large customer base throughout their impressive expansion.

## **To Conclude**

For insurance, the main challenge is to convey to consumers the value of their product over other companies, and benefits of remaining with the company over time, when the product is viewed as commodity and price competition drives the market. This cross-industry insight, show us that a differentiation based a superior service experience, although complex to achieve, is more sustainable than product innovation, as it is more difficult to replicate. The additional value

perceived from superior service makes the customer more loyal. Thereby more likely to stay and purchase other products.

In brief, Insurers who seek to differentiate themselves on customer experience must undertake a meticulous and systematic review of their all consumer-“company” interactions to rethink and redesign how they build expectations, complete the selling process, claims handling, renewal process, and “after-sales” service, in a way that seduces the customer into repeating the cycle.



## **Part Three (Chapters 6, 7 and 8)**

*Now familiarized with the distinction between products, services, and the customer experience; the main trends that are shaping and the changing customers expectations; and learning how leading companies in other sectors are effectively building a competitive edge for themselves by capitalizing on the customer experience; This third part of the thesis, aims to make the reader reflect on preconceived incorrect notion that limit service quality, understand the internal factors that necessarily must come together internally to create seamless customer experiences, and finally reflect on strategic considerations for insurers seeking to pursue customer experience differentiation.*

### **6. Factors Limiting Service Quality**

#### **6.1 Serendipity Does Not Lead to Efficiency**

When it came to ensuring a superior customer experience, all companies seen in the previous chapter left nothing to chance. The executives and designers that oversaw the customer experience carefully planned, controlled, automated where possible, audited for quality control, and regularly reviewed for performance improvement and customer reaction. They sought feedback from staff and customers to identify weak points in the customer experience and promptly took action to correct it. In some instance the companies even proactively reached out to customer to prevent complaints from flowing in. In essence, they adopted technological and system approaches inspired from manufacturing to reach efficient operations and a standardized quality level of service.

Where technology, systems, and tools, were not enough, they implement a strong culture to guide and empower service staff in taking the appropriate actions; leading to the desired level of service quality.

Today, few companies have achieved such seamless customer experiences. Many service companies rightfully see themselves service providers. In most instances this leads to a strong focus on the design and delivery of the actual service. Meanwhile, they rely on sales incentives and varying levels of training to ensure quality of sales and after sales. In short, they unfortunately fail to think and act as comprehensively as manufacturers do when designing and integrating all the stages of the customer experience. Therefore, they do not reach the same low-cost production of customer-delighting experiences.

#### **6.2 Fix the Root Cause, Fix the Problem**

The companies seen in chapter five, took audacious steps in implementing new ways of doing thing in order to fix current problems. This required substantial initial investments, which they made, even though the returns where not always easy to estimate. At times, this solution meant taking and assuming difficult decisions such bypassing or changing the way of working with intermediaries; or even challenging existing business models.

Companies who fail to think and act comprehensively, with the bigger picture in mind, have a higher change of undertaking initiatives, or investing resources towards supplementing an ongoing inefficiency instead of eradicating it. Motivational initiatives (training, incentives programs,...) are an example. If someone is not selling, or not servicing right, unless the root cause is identified and the right tools, processes, equipment, or controls, are put forward; the motivational programs' effects will be short lived. These costly programs maintained overtime without fixing the root cause lead to increase operational cost and can loosing competitive edge.

### 6.3 Customer Experience is Not a One Man Show

All companies seen in the previous cases integrated after-sales service within the design of their customer experience. Sometimes they combined sales and after-sales service under the same roof; other times they used after-sales service feedback to further improve the customer experience.

Problems occur when a company sees service as an afterthought each customer-facing department should handle on its own. This stops feedback from being considered to further improve other stages of the experience. In order to offer superior customer experiences from start to end, there must be an overarching structure to design and improve the experience from a global. This team, must work closely with the departments involved, not only in to integrate these new services or improvements in their daily operations, but more importantly to teach them how to deliver these services and improvements to customers.

### 6.4 The Way Other Industries Service Their Customers Impacts The Way Your Customers' Will Evaluate You

Companies benchmark themselves against their peers all the time. However, the companies seen in chapter five look for inspiration outside their industry because they wanted to achieve the type of superior customer experience that would differentiate them from their peers, instead of playing the me-too card, and therefore build a sustainable competitive advantage.

Furthermore, because other sectors are listening to and giving customers the kind of experiences they are requesting – more simple, more proactive information, more instant gratification, etc. – and because these companies interact with consumers on much higher frequent basis then insurers do, they are shaping and setting the standard for customer experiences. Today's customers are growing increasingly demanding, and they simply will no longer stay with a company that does not meet those standards.



## **7. Essential Internal Factors to Pursue a Customer Experience Differentiation**

Companies who have gained a competitive edge by differentiating themselves on providing a superior customer experience know that is something difficult to replicate. Companies, who are interesting in attempting it, need to first reflect on their organization and the internal conditions that makeup the right setting for the creation of new, seamless, and superior customer experience.

### **7.1 Executive Dedication and Clearly Defined Goals**

Superior customer experiences are difficult to replicate because different departments with different priorities and goals must be aligned in order to achieve them.

As demonstrated from the previous company cases, those who succeed have the dedication and involvement from their executives. Each organization has its own type of system to manage the process of generating ideas, evaluating, selecting, and developing the ones that will best enhance the customer experience. For example, Amazon involved both customers and employees, in giving feedback on how to improve the customer experience. The screening and selection of ideas is run by the executives, and Bezos himself gets involved in the final decisions. From this point on, the executives plays a crucial role in clearly setting the goals, selecting which initiatives are to be worked on, and providing the right structure and resource to oversee its creation and implementation. The executives also marked the pace, often time reviewing themselves the progress.

In most instances this executive figure was the CEO or president. However, some companies such as Southwest, create the special role of Vice President of Customers to oversee the customer experience and coordinate all other areas (Operations, IT, HR, Marketing, Sales, R&D, etc.). This last figure is becoming increasing popular amongst service companies.

Independently of which executive member plays that role, he is the catalyst that lays the path for everything that is to come thereafter. Therefore, it is essential for this role to be a part of top management in order to have the influence, resources, and above all a holistic customer-experience focused vision.

### **7.2 Organizational Structure to Define and Manage the Customer Experience**

Front stage employees (sales staff, claims staff, after-sale service staff) report to their respective line of command. As such, each department is left with the task of improving and evolving the company's customer experience. In the case of Insurance, there is an added level of complexity as part of front stage sales service report to an intermediary, and part of claims service is handled by third-party providers. The risk of in relying on each department to enhance the

customer experience is that it leads to a series of small improvements readily implementable, a short-term focus with little perspective of achieving a superior customer experience that sets the grounds for differentiation. This is too often what occurs in the service sector.

Nonetheless, this is an understandable situation as we have seen that a holistic approach to designing and evolving the customer experience requires the integration of completely new services, and comes along with cross-departmental implementation as well as integration of technologies and systems. This is a huge challenge for anyone to undertake on its own.

Companies who successfully differentiate themselves on customer experience put Cross-functional teams in charge of designing and improving the customer experience. The team reunites experts from all function, who then work closely with the people from each department (operations, business planning, sales, market insight, marketing, branding, technology, and human resources). Some companies may assign teams on a part-time or a full-time basis, assigning greater resources to speedup time to market of given initiatives.

On one hand, cross-functional teams typically undergo the initial challenge of overcoming clashing interests and backgrounds. On the other hand, they bring a wider base for creativity and can lead more innovative ideas. Nonetheless, because good ideas can come from anywhere in the company, leading companies in customer experience create an internal environment where feedback from front stage gets funneled back the cross-functional team.

### 7.3 Alternative Performance Measures

The business world likes tangible and readily measurable initiatives. Since many elements of the customer experience are intangible (ie. service delivery), a great challenge in customer experience improvements resides in describing and measuring the results of a given improvement. The difficulty of predicting the financial returns can at times cause an unwillingness to invest in customer experience improvements and innovations; but it can also have the contrary effect of easily overinvesting in initiatives that yield no returns.

Moreover, new customer experience improvements related to intangible elements, such as service delivery, are intrinsically more risky, less consistently delivered, and slower to provide. In short, they are less efficient for the organization than existing procedures. This is because most intangible element requires people to master new skills, knowledge, and procedures. Time must be set aside for the learning curve to take place. During this phase, it is also important to conduct regular performance audits and take corrective measures early on to optimize the implementation of these new procedures. As people overcome the learning curve, performance metrics stabilize and should reach the desired level. Nonetheless, it is difficult to gage the adequate time frame when lacking previous experience. The tensions between the realities of delivering a new service while being benchmarked against current performance metrics are natural. If not managed properly, these tensions can result in the early abandon of an initiative that could lead to great results.

As seen from the cases in chapter five, the companies that succeed in innovating and differentiating themselves on customer service all stressed the importance of linking customer experience improvements with overall business performance. An early estimate of forecasted results allows top management to evaluate, select, and allocate resources to the initiatives. In addition, special metrics can help a front stage staff better understand how its participation will impact the company overall top and/or bottom line results; a powerful tool in engaging employees at the implementation stage.

However, these companies understand that for real innovation to occur, often times alternative performance metrics and/or performance standards must be used. Thus, they commonly selected a combination of more standard metrics such as revenue/profit growth, customer satisfaction, and customer loyalty; with other metrics more specific to every new initiative.

Lastly, analyzing performance data through an ongoing process for data collection and analysis, involving large numbers of customers and continuous measurements, becomes a crucial activity. All type of performance data is pooled together from the customer-facing areas and other company contact points. This is another difference between companies who exceed at providing a superior customer experience and those who do not: the first ones use this data as part of a feedback loop where current performance information is send to the team in charge of designing and evolving the customer experience design.

## 7.4 Nurture a Customer-Experience Culture in the Front & Back Stages

A common trait to the company cases seen in chapter five is that they all shared a strong corporate culture focused, not to say fanatical, on providing the best customer experience. Evidently, this is because they each had a leader within the top management passionately diffusing this culture in all spheres in and out of the company. In some instances it was easier to perceive the impact of the culture more on the back stage (Amazon), and in other instances more on the front stage (Commerce). This is merely a reflection of nature of each business: as the actual delivery of the service becomes more people intensive, the greater importance culture gains in the front stage as it is a powerful tool to commend to service level quality.

However, this detail in no way diminishes the importance of a transmitting the culture in the back stage. Culture acts as the lever that make backstage employees feel connected to the front stage. Understanding their contribution to achieving overarching company goals, engages them into collaborating in the same direction. Organizational culture can be or the greatest asset or the biggest hindrance to delivering great service.

In short, companies that differentiate themselves by providing a superior customer experience have a culture characterized by a thorough understanding of the importance of good customer experiences, a strong dedication to innovation and much support in terms of the resources are devoted to research,

design and development. This enables them to continuously develop and renew coherent experiences that fit customers expectations.

## 7.5 Technology Agility and Dosage

If bringing significant improvements to a company's current customer experience was not already sufficiently complex because of the holistic vision it requires for its conception and design; it is when the time comes to bring this holistic implementation to technology systems integration that the company will have to determine if it is truly dedicated and committed to providing a superior customer experience. When difficulties arise in system integration an easy way out is to make compromise. All too often, these compromise in fixing a back stage issue, result in a complexity spillage over to the front stage.

Companies who effectively differentiate themselves on the grounds of providing a superior customer experience understand the importance of having agile technological systems that can evolve along with the expectations of the customers. They understand that if they do not provide their customers the simplest solutions, if they make them do any amount of extra work, if do not provide them different options to contact with them, some other company will and that day the customer will stray to a more convenient company.

However, companies who effectively differentiate themselves on the grounds of providing a superior customer experience also know that more technology, especially to interface with the customer, is not always better. Technology must be introduced in accordance with the customers' understanding of it, ultimately coming to the conclusion that is more beneficial to him than the current way he is doing things. This does not mean that these companies hold back on introducing technology since the failure to do so can lead to important drawbacks. Instead, they plan for the future introduction of technologies; including tactics to phase the adaptation process for different segments of its customer base. To illustrate, ATMs are the perfect examples, they were first introduced decades ago, yet some segments of the population still go to the teller to make cash-withdrawals. The frenzy surrounding social medial and mobile applications needs to be taken seriously initiatives, until you find the one that you can capitalize on.

## 8. Strategic Considerations for Insurers in Designing Their Approach to Customer Experience

Insurers, to the average customer, exude complexity at all levels. They are difficult to understand, complex and inconvenient to deal with, hardly trustworthy and even today's most rapid standards of action/reaction rarely match customers' increasing demand for proactive service and instant response. In fact, to the eye of the customer intermediaries bring value because they act as translators of this complexity. As the simplicity trends (the radical simplification of everything) advocates, insurance is a sector ripe for disruption. Someone will come forward, take that complexity away, thereby questioning the role of intermediaries, and basically cause disruption. Bear in mind, today's customer loyalty is maintained as long as no one else comes along with a more appealing value proposition than yours.

The recent and fiercely increasing competition from direct companies (especially online) and aggregators is a demonstration of this market disruption. Meanwhile new models such as peer-to-peer insurance are trends to monitor. These more direct and collaborative models in their interactions with customers are a very recent phenomenon in the overall history of the sector. Hence, it is not surprising that there remains some level of complexity in their customer experience.

Nonetheless, as advances are made every day, insurers must look ahead to envision the experience that tomorrow's customers will seek, and decide where the balance, and possible transition, sits between today's traditional distribution models, aggregators, direct models, collaborative models, and potentially new models not even proposed yet. Clearly, the sector is at crossroads, and this previous reflection is the first step that insurers seeking to differentiate themselves, and build their competitive edge by providing a superior customer experience, must make. They must be willing to take a leading stance in tomorrow's world; a "me-too" approach is inconsistent with achieving a true differentiation.

Therefore, prior to undertaking the redesign of their customer experience, insurers must choose the way(s) which they believe will best enable them to provide a superior experience to today's and tomorrow's customer. In this initial stage, redesigning the experience implies: (re)designing the selected models, adapting them, introducing the right ones, and phasing out the outdated ones, in accordance with the pace at which customer segments, with radically different approaches to interacting with companies, rise and expire.

An equally important consideration throughout this first stage is to adequately invest the resources, both financial and human, in the right direction. Building a superior customer experience requires great dedication and coordination at all levels of the organization. Consequently, spreading resources too thin, can impede from ever achieving this differentiation.

Far from seeking to dictate the ideal path, which will be different for every company, the purpose of the thesis is to broaden the reader's perspective by jointly reflecting upon the nature of being a service-based business, social trends, customer experience champions from other industries, benefits of a differentiation based on providing a superior customer experience, and the implications of pursuing a customer experience differentiation; in order to enable the reader to start tracing his own path to transformation.

## 8.1 Synthesized Overview of the Customer Experience and Interaction Levels

The modeled here below is a proposed, high-level visual summary of the customer experience components, in the insurance sector, adapted from service blueprint techniques.

Table 1 allows to see how the customer experience begins at the stage of building expectations, to then moves on the purchase and maintenance stages, leading to renewal and additional purchase stages. A claim may or may not occur. Nonetheless because of the significant impact claims have on the customer's renewal and additional purchase decision, it was placed right before that last stage. Although the design of the customer experience needs to be analyzed and carried through in detail at each of these stages, experiential designers need to take into account the overall customer experience to ensure continuity and a seamless experience between individual stages. For this reason, the model places a cross-functional team on the line of internal interaction. It indicates that the cross-functional team works with the experts from all key area (Product, Marketing, Sales, Operations, Information Technology, Human Resources, Claims, and Business Planning) in both designing a seamless customer experience, implementing news systems, procedures, and tools, collecting feedback and analyzing data to continuously evolve the model.

It is interesting to underline, that insurers often narrow down to the service delivery during the claims-handling process, as this is the service that the client has purchased. Although this is true,

Servicing, (assessing, attending, informing, following up) the customer is also what occurs during the purchase, maintenance, and renewal/additional purchase faces. In short, insurers getting, holding, and generating more business depends on how well they service.

The right hand side panel demonstrates that top management leadership and commitment is required throughout all the layers of the organization in order to ensure a seamless experience.

The first column on the left hand side shows the different layers and interactions that make-up the customer experience, and the interactions that occur between these layers, all of which ultimately impact on the customer's perception of his experience with the insurer. In addition, interactions with the insurers'

distributors and third-party providers also have an impact on the customer's overall evaluation of the experience.

- **Physical Evidence**

Physical evidence are the elements that connect to the customers five senses (see, touch, feel, hear, taste). Examples include office facilities, advertising spots, policy documentation, mechanics' appearance, operators' tone of voice, ...

- **Customer Actions**

Customer actions are all the things that customers do and ask when interacting with the insurer. Examples includes, searching for information, asking for a quote, calling for assistance, changing an address, etc.

- **Line of Interaction**

The line of interaction is drawn between the actions of the customers, and the actions of the insurer's employees and representatives. Often times in service experience design, both parties are referred to as the actors of each scene that unfolds.

- **Front Stage**

The front stage is where the insurers' employees and representative (or interfaces) interact with the customer. It includes all the things that employees and representative (or interfaces) do for and ask of the customers. Examples include sending direct mail, giving assessment, asking for documentation, giving updates, etc. Customer experience designers plan with great details these interactions.

- **Line of visibility**

The line of visibility separates the front stage from the back stage, and recalls that everything above this line is visible to the customer, while everything below is not.

- **Back Stage**

The back stage is where employees from all support areas perform the necessary implementation and/or processing to ensure front stage

actions. Examples include producing documents, processing information, etc.

- **Line of internal interaction**

The line of internal interaction is drawn between the activities of back stage contact employees and the areas responsible for the design of these activities.

- **Support Processes**

The support processes are made-up of the areas that centrally design, create, and evolve the activities that must be implemented in order for the service/interactions to be delivered properly. This stage includes the creation tactical plans from all areas together with the collaboration of other one another.

Insurers who seek to differentiate themselves by providing a superior customer experience can use the following approach to set their aspiration, start to identify the gaps, and analyze the changes required in order to achieve their goal.

First, Insurers should describe, in a clear and concise way, the customer experience they aspire to reach. The shortest, the better, as the aspiration will be easiest to communicate both internally within the company, and also externally to companies' different stakeholders. To help, you may recall from the cases seen in chapter five that Commerce Bank aspired to be America's most convenient Bank and constantly "wow" its customers and that Amazon sought to offer its customers the simplest experiences.

Second, armed with your aspiration, start reviewing each phase of the customer experience. Reflect scrupulously of how every little component of the front stage should be in order to truly live up to your aspiration. How should every piece of physical evidence be? How should every interaction with an employee, or representative, or computer/mobile interface begin, unfold itself, and end? It may help to adopt Southwest's review committees' MOM Rule: Would I be satisfied with the outcome if that was what happened to my mother, or how she was treated? Remember, in order to achieve a differentiation based on delivering a superior customer experience, there cannot be any compromises on the front stage.

Instead, every time a gap is identified, the exercise consists in going back through the different layers, to identify the root cause that is preventing the effective delivery of the customer experience aspiration, and correct it. Champions at delivering superior experiences are obsessed with this exercise.



They encourage everyone in the organization not only to come forward with gaps, but also to give suggestions on for continuous improvement. Overtime, the improvements made can be changes in systems, processes, and tools; or even changes in the actual service sold (product refresh) or new services altogether. Ultimately, it may even bring a company to adopt a new business model. In any case, continuously revising your customer experience to detect improvements can lead to new opportunities that otherwise would have gone unnoticed.

Table 1. High-Level View of Insurance Customer Experience

Customer Experience																
	Set / Buildup Expectations			Purchase			Maintenance (after-sales)			Claims				Renewal Additional Purchase		
<b>Physical Evidence</b>	Office & Physical Environment	Media & Communication	Online Environment	Office & Physical Environment	Online & Remote Environment	Documents	Office & Physical Environment	Online & Remote Environment	Documents	Office & Physical Environment	Online & Remote Environment	Thrid-party providers	Documents	Office & Physical Environment	Online & Remote Environment	Documents
<b>Customer Actions</b>	Search Experience Actions & Interactions			Shopping & Assesment Experience Actions & Interactions			Relationship Experience Actions & Interactions			Service Delivery Experience				Relationship, Assesment, and Shopping Experience Actions & Interactions		
<b>Line of interaction</b>																
<b>Front Stage Interactions Staff actions</b>	Staff Engaging Customers	Informational & Collaborative Exchange		Scripted interactions from start to end	Interface browsing, filling, etc	Reading, filling, etc.	Staff engaging customers, Scripted interactions from start to end	Interface browsing, filling, etc	Reading, filling, etc.	Scripted interactions from start to end. Coordination with other interfacing actors	Interface browsing, filling, retrieving, etc	Scripted interactions from start to end.	Searching, Reading, filling, etc.	Staff engaging customers, Scripted interactions from start to end	Interface browsing, filling, etc	Reading, filling, etc.
<b>Line of visibility</b>																
<b>Back Stage Interactions</b>	Staff prepare action implementation	Marketing & agencies implement plan	Staff, Marketing & agencies implement actions	Implement sales procedures, scripts, training, incentives, audits, etc.	Interface implem. & optimization	Implement Processing	Implement procedures, scripts, training, incentives, audits, etc.	Interface implem. & optimization	Implement Processing	Implement procedures, scripts, training, controls audits, etc.	Interface implem. & optimization	Implement Processing	Implement procedures, scripts, training, incentives, audits, etc.	Interface implem. & optimization	Implement Processing	
<b>Line of internal interaction</b>																
<b>CROSS-FUNCTIONAL TEAM</b>																
<b>Support Processes</b>	Create & Review Sales Plan	Create & Review Marketign Plan		Create & review sales procedures, scripts, training, incentives, audits, etc.	Interface creation & optimization	Create & review document	Create & review procedures, scripts, training, incentives, audits, etc.	Interface creation & optimization	Create & review document	Create & review procedures, scripts, training, controls audits, etc.	Interface creation & optimization	Create & review document	Create & review procedures, scripts, training, incentives, audits, etc.	Interface creation & optimization	Create & review document	
	Product (UW, R+D)			Product (UW, R+D)			Product (UW, R+D)			Product (UW, R+D)						
	Operations & IT			Operations & IT			Operations & IT			Operations & IT						
	Culture (HR)			Culture (HR)			Culture (HR)			Culture (HR)						
	Claims			Marketing			Marketing			Sales & Distribution			Claims			

T O P M A N A G E M E N T

Source: Developed by the author

## 8.2 Last Recall: Concepts from Social Trends and Customer Experience Champions to Consider While Designing Your Own Journey

Designing a customer experience is not just about overcoming gaps. It is also about evolving, even innovating the experience in order to truly become renowned as a leader. As seen in chapter five, companies successful at doing so do not conform themselves with good customer satisfaction ratings, they set the bar for what customers perceive as great service. And to do so, they look at the upcoming trends and what other industry champions were doing to inspire themselves. Therefore, this last section is a quick review to help the reader to reflect on how to incorporate these aspects into the customer experience.

- Ensure the delivery of service is uniform and reaches the desired quality, across all customer interfacing actors, even amongst intermediaries and third-party providers.
- Eliminate variance in service delivery. Efficient service delivery is scripted to the last detail. Where technology cannot replace people, use systems, tools, and programs to ensure the desired service level. Consider how retail and fast-food franchisors use these methods to reach their objective.
- Culture is a proven, very powerful tool. In front stage positions, hire for attitude and train for skill. When staff operates in delicate service situations, empower them with the ability to solve problems without having to escalate them. Empower with accountability and build-in the appropriate audits and control measures. Align employee objectives with customer experience objectives. Include tactics to eradicate functional silos and ensure each employee understand how their role contributes to achieving the customer experience. Review your corporate language.
- Utilize and capitalize on office location like retailers and fast-food chains do. They utilize their outlet has advertising billboards, they take strategic approaches to store location and innovative approaches to drive store traffic, generate demand and repeat purchases, close down nearby competitors. They are also agile in adapting their shopping experience (not just price or product) as competitors fight back.
- Design your experience with both today and tomorrows customer expectations in mind and plan for the transition. This will ensure the

adequate integration of new technologies in way that no customer is turned off from dealing with your company.

## Part Four

### 9. Conclusions

After having read this thesis, the reader can know understand the main market and social conditions that make pursuing a differentiation by providing a superior customer experience a powerful strategy in order break the vicious cycle of price competition and to build a sustainable competitive advantage for itself. The reader also understands the key internal conditions that are essential in order to achieve the change in mentality required to effectively design and evolve a customer experience that will achieve a true differentiation and thereby providing the sought benefits of increased customer loyalty, repeat business, and cost-efficiency.

In a mature market where price competition is fierce and insurance is a commodity, typical sources of competitive advantage like economies of scale and customer loyalty are eroding. Insurance is not alone suffering these same issues and increasingly other companies, both goods-manufacturers and service providers, encouraged by a handful of companies who have successfully leverage the customer experience, are embarking on the task of pursuing their own customer experience based differentiation.

Throughout the thesis we have learned in the first chapters how to differentiate products from services. This has allowed us to understand the complexity of how managing services and the benefits of taking a structured approach to reduce this complexity and manage service experience more effectively. We have then moved on to understand how deeply the social trends are modifying customer expectations and we have seen many different ways in which customer experience leaders from different sector have mastered the art of designing and evolving their experience to reap its benefits.

From this we were able at a later stage to reflect upon the internal conditions necessary to reach for a company to differentiate itself on customer experience. Through a high-level framework we have seen an approach as to how companies can start rethinking their customer experience in light social trends and inspired by the best practices industry leaders seen in previous chapters.

However, from everything that was discussed in the thesis, some key conclusions that companies seeking to pursue a differentiation by providing a superior customer experience will have to keep in mind are:

- Being a successful service provider is much more than simply selling a service. It is managing the entire customer experience from the before the purchase transaction occurs, all the way through repeat

purchase, viewing this process not as a series of transaction, but rather has as a holistic relationship maintained overtime. A series of improved service delivery point points does not effectively differentiate your service offering to the customer. For true differentiation to occur and value to be perceived, the difference more transcend at all stages of the customer experience, in all contact points with the company.

- The delivery of a superior quality customer experience requires carefully designed plan to ensure a seamless delivery between front stage and back stage employees.
- The integration of systems, tools, and procedures to ensure a unified service delivery in the front stage, and a feedback process to ensure continuous improvements, are essential to direct from a distance the desired quality level in the customers' interactions with the company. How service is delivered is just as important as what services you provide.
- Customers have increasingly demanding expectations toward companies. Companies who succeed at attending these expectations with their customer experience will command greater perceived value in the eye of the customer, and reduce drastically attrition rates.
- Companies who have achieved a true differentiation and gained a competitive edge by providing superior customer experience sought inspiration outside their industry to rethink their own ways of doing things.
- Fast-food chains provide valuable insight on how to systemized service delivery, retailers provide god insight on how to build expectation, build loyalty and repeat purchase, airlines and hotel teach us how to implement effective and strong service cultures. Meanwhile, commerce bank demonstrated that redesigning the customer experience from the customers' perspective, in light of customer's desires and armed with cross-industry insight leads new opportunities that could have otherwise been overlooked.

- At all levels of the customer experience, service can be levered to improve top and/or bottom line performance. Spending in providing a superior customer experience is not a sunk cost, it's an investment with great returns.
- Top management implication and organizational structure are key elements for a customer-focused mentality to emerge and create the conditions to design and management a differentiated, seamless customer experience.

In the mist of economical turmoil, changing customer patterns, and with the rise of new internet-based business models, Insurers find themselves at cross-roads. They need to rethink is and how their current business model to ensure it allows them to differentiate themselves from their competitor in other to break away from the trap of price competition. Embracing the custom to designing and managing superior customer experience is the ideal tool for companies to start building their differentiation and reaping the benefits of a more loyal customers base, increased business income and achieve greater cost-operational efficiency. Those who succeed in the process will come to gain a sustainable competitive advantage other time, as achieving a seamless customer experience is quite complex, and therefore difficult for other to replicate.





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Born in Montreal, Canada in 1982, I have a Bachelors of Commerce from Concordia University. As part of the co-operative program I have completed my studies alternating study semester with internships, providing me the chance to discover many facets of the marketing function in small businesses, multi-national companies, and agencies. Working at times with clients located overseas, and other times being myself located overseas. This experience has confirmed my passion for undertaking marketing challenges, regardless of the industry or geographical location.

I started my career as a Project Manager for a prominent online and new media advertising agency in Montreal. Just a few months later personal circumstances brought me to move to Barcelona, where I started my career at Zurich in 2008 as part on a global training program within the marketing function.

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