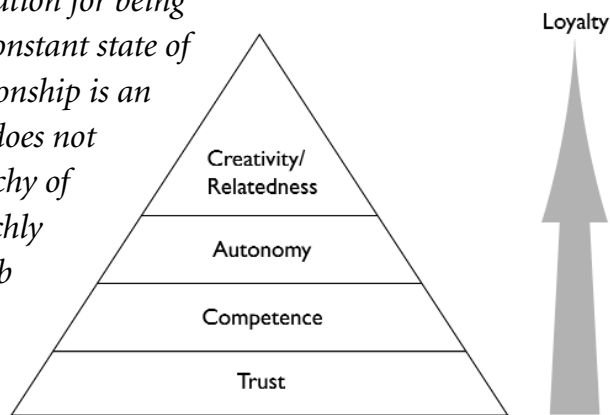


Customer loyalty and experience design in e-business

*D*igital environments have a reputation for being ephemeral, confusing, and in a constant state of flux, a world where an enduring relationship is an oxymoron. Karl Long counters that it does not have to be that way. Based on a hierarchy of “experience design” parameters, he richly illustrates a framework for making Web encounters a platform for an ongoing exchange that consumers value and depend on.



Karl Long, Director of User Experience, Digital Architects

Loyalty, like trust, is hard won and easily lost. It is built over time, over multiple interactions in which each party gains deeper knowledge of the other and acts accordingly—but enough about what I learned in relationship therapy. This truth about loyalty extends beyond interpersonal relationships and applies to business, as well. Frederick F. Reichheld (who is not my therapist at all, but rather the author of *Loyalty Rules: How Today's Leaders Build Lasting Relationships*) has come out with a definition worthy of Dr. Phil:

Loyalty means listening to your partner, creating mutual satisfaction.¹

Gaining customers' loyalty is the Holy Grail of business—a way to reach eternal life or, in business terms, long-term sustainability. The value of customer

loyalty is far greater for a business than the value of repeat transactions; loyal customers are less price-sensitive, require less marketing outlay, and are more open to providing feedback and more likely to refer friends. Here are some details:

- Wooing a new customer costs five to seven times more than retaining an existing customer.
- Reducing customer “churn” by 5 percent can increase profit by between 30 percent and 85 percent.
- Increasing customer retention by 2 percent is equivalent to reducing operating expenses by 10 percent.²

1. See <http://www.cio.com/archive/010102/loyalty.html>.

2. K.R. Bhole, *Beyond Customer Satisfaction to Customer Loyalty* (New York: American Management Association, 1996).

For e-businesses, where the interaction between a business and a customer is mediated by network technologies, competition is never any further than one “click” away. This makes customer loyalty more difficult to achieve (due to the low switching costs for customers), as well as more critical to business survival. The tools that an e-business has to drive customer loyalty largely depend on its Web site’s functionality and design. This creates a design challenge for e-businesses: How can the design of our Web site improve customer loyalty? Experience Design helps answer this question.

What Do We Mean By Experience Design?

Experience design is not a stringent methodology, but rather a more inclusive, humanistic approach to certain design problems. Because this approach provides a broader understanding of the customer experience—one that goes beyond simple transactions—it is ideal for creating designs that support richer interactions that can lead to loyalty. Although many design disciplines (for instance, visual design, information architecture, information design, and interaction design) can come under the heading of “experience design,” I see it as an approach that is defined by context-rich research methods that rely on observation, generative research, and participatory design. The focus on contextual research methods is important in understanding the diverse needs and attitudes of various types of customers. It is these methods that create a foundation of understanding for designers that will help them to create customer experiences that lead to deeper relationships, essentially moving customers through the stages of what I call the “hierarchy of customer experience.”

The Hierarchy of Customer Experience

The hierarchy of customer experience is an adaptation of what psychologists call the “hierarchy of needs.” This is the concept that the satisfaction of lower-order needs must come before those of a higher order can be fulfilled. The psychologist Abraham Maslow was the first to popularize this idea, and later Frederick Herzberg related it to factors that influence employee motivation. Indeed, the psychology of human motivation is an appropriate lens through which to view customer relationships, because the increasingly valuable interactions that surround

basic transactions often require active participation from the customers, and therefore motivation.

The hierarchy of customer experience has four levels of needs: *trust*, *competence*, *autonomy*, and *creativity/relatedness*. These levels are essentially cognitive states that should be supported to enable deeper, more meaningful interactions. Trust and competence are essentially the transaction drivers; autonomy and creativity/relatedness are the drivers of loyalty—the intrinsic motivators. Where online customer experiences are concerned, transactions are the foundation on which deeper interaction can be created, and therefore they must be enabled before loyalty can be built.

Experience design evolved specifically to provide a broader perspective on customer experience—to understand the broader context that might surround usage and transactions. Experience design methods and disciplines provide a suite of tools ideally suited to help drive loyalty in the customer relationship. The following paragraphs detail how experience design creates and supports interactions that can drive loyalty by supporting trust, competence, and autonomy and by encouraging creativity/relatedness.

It is important to remember here that knowledge of the customer is the factor that underpins every design activity. For this reason, the user research methods practiced in experience design are the foundation of successful designs. These methods can be as diverse as the users themselves, so there is no perfect “prescription”—the method chosen depends very much on the complexity of the interactions involved, the sophistication of the customers, the diversity of the customer base, type of access to users, and so on. Constraints of time and budget will also factor into which user research options are available. If a researcher can afford to spend some time as a true ethnographer, living with and documenting customers in specific contexts, that’s great—but user research can also mean in-depth interviews with customer service representatives, listening

For e-businesses, a crucial question: How can our Web site improve customer loyalty?

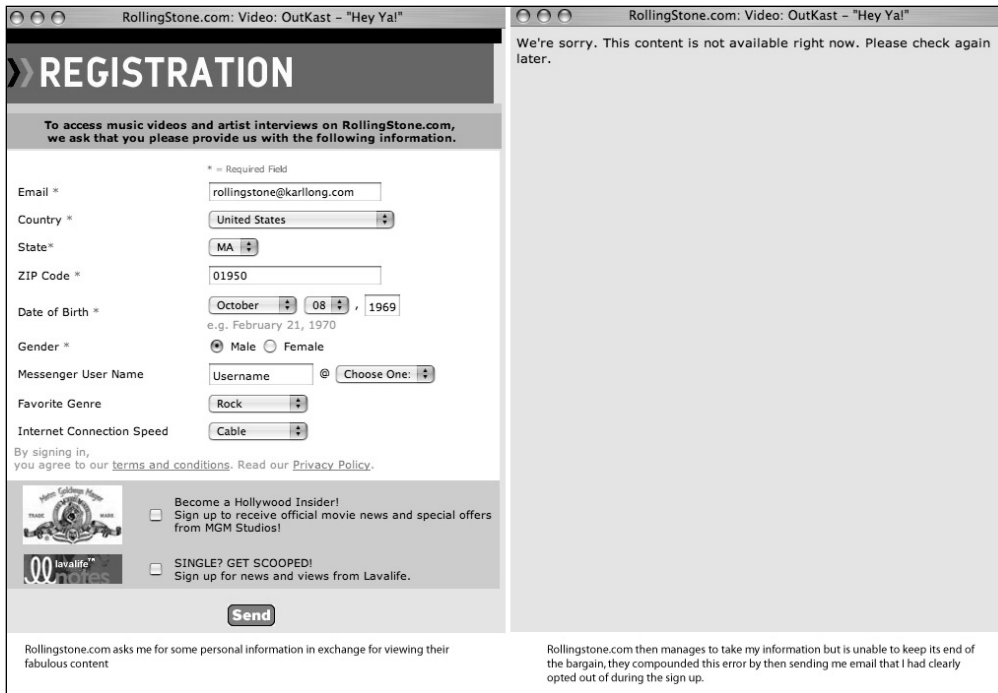


Figure 1. The result of my first interaction with *Rolling Stone* magazine shows no respect for my time, my information, or my needs. I had trusted them by default up until this point because I had heard of the brand. Now, I have experience with the brand.

Table 1. Dimensions of Trust in E-Business

Trust Dimensions	Relevance to E-Business
Appearance	Graphic design, information architecture, information design
Behavior	Interaction design
Reputation	Past experience, experience of others, expression of brand

to recordings of customer support calls, or looking at Web server log files. It is not just about listening to customers; the researcher must develop a level of empathy for what customers “need,” as well as what they want. The hierarchy of customer experience is focused on supporting human needs that can support a deepening relationship between a customer and an organization.

Trust

“Without good experiences there can be no trust.”³
 Trust is the foundation upon which relationships are built, therefore it forms the base for our hierarchy of customer experience. Trust is the factor in the framework that must be put in place before anything else—without trust, not even the most basic transactions can take place.

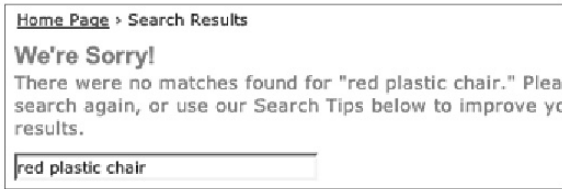
Many clues are used to establish trust, initially through visual evaluation (“Does this look like something I can trust?”), and then through behavioral clues (“Did this do what it looked like it would do?”). It should be noted that all these clues are filtered through the context of our past experience; if we have no direct experience with something, we draw on analogous experience. Things that look or behave in a familiar way gain our trust faster than something that is novel and harder for us to fit into our existing mental model of the way the world works.

Trust is referred to as “the lubricant of cooperation.” In the context of a customer and a business, the level of trust required to build a relationship varies with the value of the exchange. Very little trust is needed to underpin my relationship with a candy store selling me a pack of gum. Much more is necessary when I consider purchasing a car from a dealership.

Online, trust is a process that must be continually reinforced. It begins with visual indicators and is renewed through behavior. When an action looks like it will have the outcome we desire, we attempt it, and that action either confirms or denies our supposition. Here, graphic

3. Darrel Rhea, “Reality Check,” in *Critique*, Winter 2000.

A bad example from Wal-Mart
Searched for "red plastic chair" and was shown nothing despite the fact that Wal-mart does carry red plastic chairs



A good example from Lands' End
Searched for "hoodie" and got some very close matches.



Figure 2. These examples demonstrate how technology can be designed to support the competence of customers. The good examples promote competence by understanding that humans do not always create the perfect search term; the bad examples leave customers thinking the company does not have what they are looking for. Good interactive designers start with a rich understanding of customer experience. These examples are courtesy of the "E-Commerce Search Report" by 37signals, LLC (http://37signals.com/report_search_0103.php).

design and interaction design work in concert (table 1). Appearance and function must work together seamlessly to avoid any incongruence or contradiction.

Even if a customer has had no direct personal experience with a company, customer reviews, for instance, can offer a visual representation supporting the reputation of a brand. Online, a company's reputation is crucial—and even a good reputation can be undermined by problems with the visual design or the behavior of the company's Web site (figure 1).

Some specific user interface elements that either build trust or destroy trust are detailed in a recent academic study (see table 2), which provides some actionable ideas on ways in which interface designers can ensure they are building trust online.

Many design issues are important in establishing trust, but past experience is probably the most powerful factor. Multiple successful and satisfying experiences increase our levels of trust over time. Once we trust a business enough to initiate a transaction, that business has to offer the functionality that enables us to competently complete the transaction.

Table 2. Organizational values embedded in processes

	Trustbuilders	Trustbusters
Interface factors	Status indicators	Poor usability
	Displaying data already entered	Inconsistent design
	Continuous visibility of products to be ordered	Technological failures
	Order tracking	Long system response time
	Recourse	Not complying to business & online standards
	Trial runs	Information on terms & conditions, shipping time, product availability positioned in a way that is easily overlooked by the user
	Assignment of responsibilities	Intentional usage of personal trust cues without providing functionality
	Communicating trust cues as by-products of functions. (e.g. user community, company history)	Agents that generate expectations they cannot live up to
	Product lifecycle management	
	Project management	
Other factors	Project controls	
	Brand	
	Reputation	
	Reputation sharing	
	Affiliate programs	

From Jens Riegelsberger and M. Angela Sasse, "Trustbuilders and Trustbusters: The Role of Trust Cues in Interfaces to e-Commerce Applications," First IFIP Conference on E-commerce, E-business, E-government (i3e), Oct. 3-5, 2001, Zurich, Switzerland (available through <http://www.cs.ucl.ac.uk/staff/j.riegelsberger/publications/htm>).

Competence

Customers interacting with an organization should feel competent and be encouraged to feel competent, and they should also perceive the organization as competent. The objective is not solely convenience; it is to make the whole experience enriching and engaging. As Paco Underhill has written:

Amenability and profitability are totally and inextricably linked. Take care of the former in all its guises, and the latter is assured.⁴

As consumers, when we run into problems related to our purchasing experiences in the real world, we can usually find help easily enough. Online, it is not so easy (figure 2). In the context of the hierarchy of customer experience, competence is the customer's ability to learn how to

4. Paco Underhill, *Why We Buy: The Science of Shopping* (NY: Simon & Schuster, 2000), 44.

Figure 3. The Orbitz search vs. the Delta search illustrates how understanding customers' needs can help designers make interfaces that give more freedom and control. Orbitz, apart from being friendlier, provides useful options, such as a choice of airports, and allows searches for family, round-trip, one-way, or multi-city tickets, as well as specific dates and even broad time ranges.

interact, identify, discover, and find what he or she needs. For the organization, competence means its own ability to fulfill basic transactions. Only when the customer feels competent—and feels that the organization is also competent—can the higher levels of interaction take place.

Where e-business is concerned, much of the interaction between customer and company is driven by the customer. The company's Web site is essentially a tool the customer uses to achieve a goal, so it is crucial that it be able to promote the customer's competence.

Usability and good information architecture form the foundation for building customer competence online. Competence is not just about making things easy; it is also the first step in a customer's learning about how to interact with an organization. Web sites that express strong navigational metaphors and use design to express a consistent mental model to which customers can relate provide an environment in which customers feel increasingly comfortable—and those customers feel more able to complete basic transactions.

Autonomy

To enable and encourage any kind of deeper relationship with customers, they must feel able

to be autonomous. Above and beyond their competence to fulfill a transaction, autonomy makes a customer feel in control of his or her experience (figure 3). When you are dining in a restaurant, for example, you feel better prepared to order if you are supplied with a menu and with prices! Perhaps a better real-world example is IKEA, which has gained tremendous value from its customers by giving them more autonomy. When customers enter an IKEA store, they are given catalogues, tape measures, pencils, and paper, and then they are given the freedom to make their own deliveries and put their own furniture together, changing the cost structure of the value chain. It is in this way that customers become *creators of value*; and autonomy is the foundation of creativity.

Providing an online experience that enables freedom, control, and mastery is a big step in moving toward the richer interactions that can promote loyalty. Information and interaction design are the primary tools for creating interfaces that confer a sense of autonomy. Customers need not only the freedom to be in control but also the right information with which to make the best use of their autonomy. Bruce Tognazzini, a well-known interface design guru of the Nielsen Norman Group, lists autonomy as one of the foundation principles of designing effective interfaces:

No autonomy can exist in the absence of control, and control cannot be exerted in the absence of sufficient information.⁵

Design for autonomy is in many ways a balancing act between making functionality available and overwhelming the user with available options. The more information designers have about what customers need at any point in a process helps them to manage tradeoffs and understand what affordances need to be in place. Designs created in the absence of this information risk taking away the control and freedom customers need to make decisions and achieve their goals. Such designs are driven by business goals that may not always be completely aligned with customer needs.

Tools that encourage autonomy are critical in moving customers toward more creative and mutually valuable relationships.

5. See <http://www.asktog.com/basics/firstPrinciples.html>

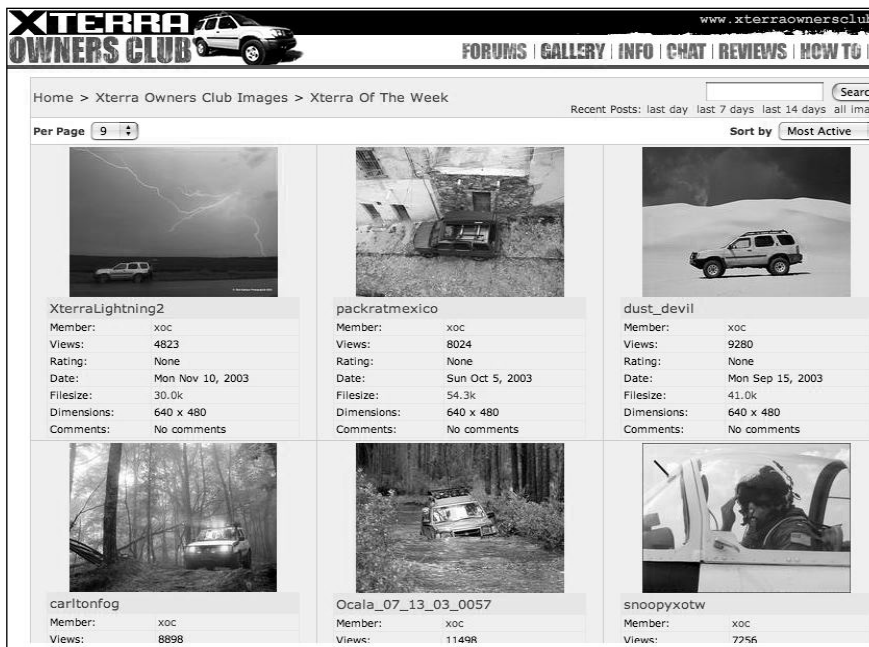


Figure 4. Nissan welcomes the creativity of its customers, who send in their photographs of off-road adventures with their SUVs. Seen on the Xterra owners club web site, the photos instill a sense of relatedness that encourages others to buy an Xterra and get in on the action.

Creativity/Relatedness

Harnessing the creativity of customers is considered by some to be the next business revolution. The idea of the company as a monolith, with clear boundaries between itself and the market, has changed dramatically over the past 10 years. The shape of the value chain has also changed; it is more and more often seen as a network that includes customers, as well as partners and suppliers. As Richard Normann and Rafael Ramirez have written, "Organizations must focus on the value-creating system itself, within which different economic actors—suppliers, business partners, allies, customers—work together to co-produce value."⁶

Acts of creativity and feelings of relatedness are at the top level of the hierarchy of customer experience. To reach this level, all three of the lower levels must be achieved. The customer must trust the company and feel competent and autonomous using its Web site.

It is this level that offers companies the most value from their loyal customers. Here's an example: A friend of mine who is a regular at a restaurant/bar asked the bartender to make her a drink that wasn't on the menu and, since she is a regular, he obliged. But he went even farther. Not only did he let her name the drink, but he also put it on the menu for other customers. Needless to say, my friend now brings a lot of her friends to that bar.

A second example is Nissan's latest advertising campaign for its Xterra SUV, which uses photographs sent in by customers detailing their off-road adventures (figure 4). And a third, rather extreme, example is the Harley-Davidson Company, which measures customer loyalty by the percentage of its customers who have the company logo tattooed on their bodies. If that isn't creativity and loyalty, I don't know what is.

The key to creating a design that is successful in helping customers to be creative is deep knowledge of the customer. Luckily, one of the benefits of having creative customers is that you develop an increasingly deep knowledge of them through their activity and creativity. In experience design, contextual research techniques form an important foundation for understanding how creativity can be harnessed. It is initially the contextual and generative research techniques that form the foundation of designs that enable and encourage creativity. It is a combination of up-front user research, prototyping and usability testing, and feedback mechanisms in the final product that form the basis for continually improving and innovating on the customer experience.

6. Richard Normann and Rafael Ramirez, "From Value Chain to Value Constellation: Designing Interactive Strategy," *Harvard Business Review*, July-August 1993, 66.

Figure 5. Apart from making it easier for customers to buy, it is likely that Cisco gains valuable market data from the creative processes of their customers.

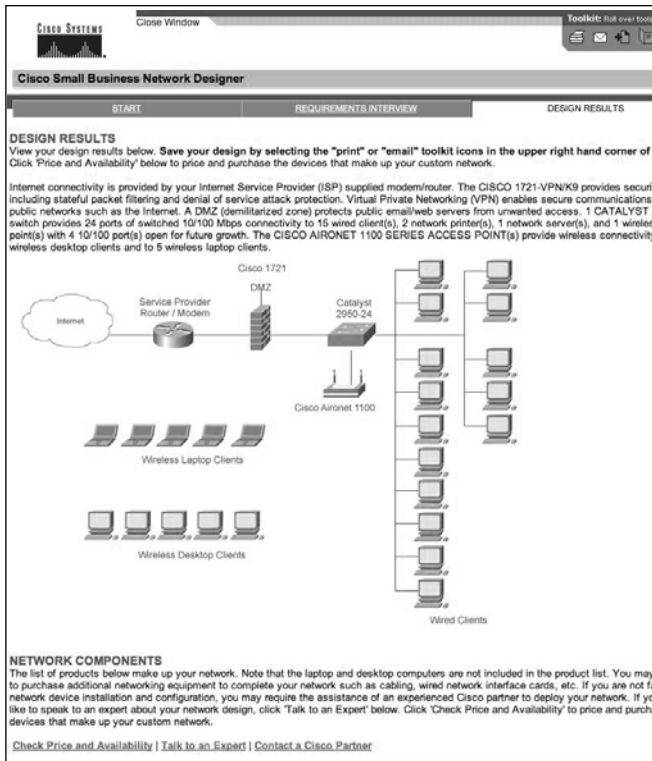


Figure 6. Amazon.com not only has a great many reviewers, but it also offers reviews of the helpfulness of the reviews — another virtuous loop in the self-regulating value-creation system that is Amazon.



Figure 7. The more you review products for Netflix, the better the Netflix experience is for all its customers.



Creativity and relatedness can be two sides of the same coin in e-business. Capturing a customer's creativity and reflecting it back to other customers creates a virtuous loop of deepening relationships and increasing loyalty.

Engaging a customer's creativity can involve simply getting feedback from him or her about products and services in the form of ratings or reviews, or it can involve a deeper process of co-design in which the customer actually participates in customizing his or her own offerings. Cisco Systems, for instance, makes the most of the creativity of its customers by providing online tools that let them create custom routers or even design entire networks (figure 5).

Engaging customer creativity online is a process that requires an easy-to-understand value proposition and easy-to-use mechanisms. There should be as few barriers to the customer as possible. For example, it is important to avoid putting long registration screens in front of customers. Amazon.com, for instance, provides a great example of low interactivity barriers in its rating system. When a customer browses any product on Amazon.com, he or she finds a rating console built into the page. All the user has to do is pick a number and click submit. Once he or she has submitted that numerical rating, the user has the opportunity to provide a written review (figure 6).

For some customer experiences, the value of participation is self-evident and self-reinforcing. In the case of Netflix, an online DVD rental service, the more movie ratings a customer contributes, the more accurately Netflix is able to predict films that customer might like. This may seem to benefit only the customers, but actually, the increasing database of ratings Netflix gains thereby is a valuable asset in attracting new customers and retaining existing ones. It can also work as a barrier to entry for potential competitors (figure 7).

Conclusion

Experience design provides very appropriate methods and techniques that can be used to help move a customer through the hierarchy of customer experience. Clearly, the disciplines of contextual research, graphic design, information architecture, and interaction design can all help to create trustworthy, competent interfaces that encourage autonomy and creativity. At a more

holistic level, however, they are the tools, techniques, and attitudes that allow an e-business to become a sort of socio-technical ecosystem that creates significant value for all stakeholders.

The psychology of human motivation may be a novel way of looking at the customer experience, but as a framework for building loyalty through customer interaction and dialogue, it makes a great deal of sense. When loyal customers are viewed as collaborators and co-creators of value, motivation becomes a critical issue.

Loyalty is important to any business, but for e-businesses, it provides a new opportunity to create customer relationships that cultivate value between the customer and the business.

The hierarchy of customer experience is an idea, not a blueprint. It must be contextualized for specific situations, taking into account the needs of users and customers in conjunction with business goals. What it does provide is a framework with which to understand the cognitive states a customer needs to pass through on his or her way to a deeper, more interactive relationship with your company. Done correctly, this framework can lead to loyal customers who add value to your organization and help your organization to learn more about how to serve them and other customers better. And if that doesn't help, you can always call Dr. Phil. ■

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Suggested Reading

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Prahalad, C.K., and Ramaswamy, V. "Co-Opting Customer Competence." *Harvard Business Review*, January/February 2000.

The Stanford Web Credibility Project (see <http://credibility.stanford.edu>)