

THE
White Paper
S E R I E S

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BEHAVIORAL DIFFERENTIATION

TERRY R. BACON, PH.D.

DAVID G. PUGH, PH.D.



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INTERNATIONAL INSTITUTE
800-866-5548
www.LoreNet.com

*R*alph Waldo Emerson wrote that if you can write a better book, preach a better sermon, or build a better mousetrap, though you build your house in the woods, the world will make a beaten path to your door. He wrote that in the early nineteenth century, an era of optimism, progressiveness, and boundless possibility fueled by a vast and largely uncharted frontier. It's not that simple anymore.

Differentiating yourself through superior products and services confers only a fleeting advantage in the hypercompetitive, global markets we now face. Following us into the twenty-first century is a tidal wave of concepts, tools, practices, and consultants that drive companies inadvertently but relentlessly toward a crushing sameness. Total quality management (TQM), statistical process control, process mapping, continuous process improvement, benchmarking, best practices, six sigma, balanced scorecard, supply chain management, learning organizations—these are the magic wands waved by W. Edwards Deming; Joseph Juran; Philip Crosby; Peter Drucker, Peter Senge; a host of management consulting firms; and Jack Welch (arguably the finest CEO in the latter half of the twentieth century), who proclaimed in so many words that plagiarism is good.

It's not that innovation is dead—quite the contrary. In 1999 the U.S. Patent Office received over 270,000 patent applications and granted more than 150,000 of them. Innovation is increasingly crucial—but it won't be enough. At best, product differentiation offers a momentary advantage, which may be enough to capture more market share, charge premium prices, or build an established base of your products (which may increase switching costs for customers). But these advantages are increasingly tenuous and

ephemeral, largely because there is a glut of capacity in nearly every industry and buyers have become less loyal.

Numerous market forces have made it increasingly difficult for companies to create and sustain the traditional sources of differentiation in their products and services. This is true in part because globalization has heightened competition in virtually every industry and market. It's also true because the relentless drive among companies to improve product quality and operating efficiency has tended to level the playing field. At the same time, the Internet has vastly increased the amount of information buyers have and greatly increased their choices, giving buyers a newfound freedom that could scarcely have been imagined only a few years ago.

This endless cycle of innovation and imitation causes competitors to erase each others' competitive advantages virtually as fast as they can be created, and we see this cycle in every industry: automobiles, personal computers, broadband services, retail, fashion, cosmetics, banking and financial services, engineering and construction, and entertainment. Whatever you produce and however you strive to differentiate yourself from your competitors, you are subject to market forces that will inevitably propel you into a market stew where your ingredients are no different from your competitors' and where fickle buyers can pick and choose, seemingly at random.

Business has two central challenges: to create differentiated goods and services customers want, and to do that in such a way that revenue exceeds costs. We are going to focus on the former of these challenges. In the markets of today, filled with entropic forces that continually erode your

differentiation, how do you find new ways to differentiate yourself? How do you answer the single most important question in marketing, “Why should customers choose us instead of our rivals?” Companies spend billions of dollars every year trying to answer this question. It is the fundamental question behind all business, and it’s becoming increasingly difficult to answer because you and your competitors offer roughly the same things. When one company innovates, its rivals rapidly assimilate those innovations or create functional equivalents and level the playing field again.

Differentiation Through Behavior

One area of differentiation, however, is difficult to copy, even when competitors have benchmarked your company and learned your best practices. That area is behavior. Behavioral differentiation (BD) is difficult to copy because it requires more skill and will than many companies have—even when they know what you are doing! There is a huge gap between knowing how to behave and behaving that way consistently.

Most other areas of differentiation can be identified and then copied or matched, but BD is a tough act to follow. When all else is equal, it can make the difference between winning and losing customers and critical contracts. When there is little difference between what you can offer customers and what your competitors can offer them, you can still behave differently toward your customers and gain (or lose) crucial advantage. In the landscape of differentiation, behavior is the final frontier.

As the term suggests, *behavioral differentiation* means differentiating yourself through your behavior toward your customers. BD has the same

characteristics that other forms of competitive differentiation have:

- *The behaviors must be unique to you.* Your competitors either do not behave the same way or are not as skilled as you are at these behaviors, and customers perceive the difference.
- *The customer must value these behaviors.* Your differentiated behaviors must somehow enhance the customer’s experience with you.
- *The behaviors must reflect your value proposition.* They should be related to what you are selling or otherwise be emblematic of the customer’s experience of you and your products or services.

Behavioral differentiation is unique in several important respects. Although it can give any company added advantage, it is not a substitute for the other forms of differentiation. *Behavioral differentiation is insufficient by itself to create a sustainable advantage.* If a company doesn’t have core products and services its customers value as much as those being offered by its competitors, then behavior alone will not sustain its business. People continue to fly Southwest Airlines because, first and foremost, Southwest gets people where they want to go—safely and on time.

Behavioral differentiation is also unique in that, of all the forms of differentiation, it is the most difficult to copy and the hardest to sustain. It requires the kind of leadership that Herb Kelleher brought to Southwest Airlines and Sam Walton brought to Wal-Mart. It demands an uncommon institutional commitment to exceptional customer service and other behaviors that are truly differentiating. It takes a significant amount of

skill and will throughout a company's workforce to create more-than-occasional behavioral differentiation. A lot of companies talk a good game, but in the end only a few have been able to grasp the fundamental insight about behavioral differentiation: *You are how you behave.*

What Your Behavior Communicates to Customers

You are on stage with your customers all the time. Like it or not, you are always either showing them that there is no difference between you and your rivals or you are behaving in ways that positively (or negatively) differentiate you from the other companies that want their business. You differentiate yourself from your competitors through acts of *commission* and *omission*—through the things you do and the things you don't do. Moreover, your customers are always comparing you to your competitors. When you enter into a relationship with a customer, you are constantly compared, behaviorally, with other suppliers the customer knows and is interacting with. There are no time-outs, grace periods, or honeymoons, and there is no opportunity to rest on your laurels. If you do, sooner or later your smarter competitors will outbehave you in ways that matter to the customer.

With customers, your behavior is always sending one message or another. Like words, signs, symbols, images, Morse code, and semaphores, behavior is a form of communication. In everything you do or don't do, you communicate whether you care, whether you are listening, whether you are responsive to the customer's needs and concerns, and whether you are placing your customer's interests ahead of (or behind) your own. Your behavior communicates what you think of

customers, what you consider important, and whether you really want their business.

Positive and Negative Behavioral Differentiation

At the most basic level, you can differentiate yourself behaviorally from at least some of your competitors by understanding your customers' *behavioral* expectations and meeting them. It sounds easy, but it's not. The problem is that knowing what to do is not the same as doing it. The map is not the territory. Furthermore, your behavior can differentiate you both positively and negatively. In the various ways you behave toward your customers, you will show them either that you are better to work with than your competitors—or worse. Positive and negative BD can have a profound effect on a customer's willingness to work with you again. You can create a bias toward yourself that results in more business or a bias against yourself that can cost you not only the current customer but also many others whom the customer persuades to avoid working with you. Behavioral differentiation can be extraordinarily impactful.

Behavioral differentiators are positive when they enhance the customer's experience of you or your products and services and when they create, in the customer's mind, a favorable bias toward you. If all else is equal, in the future this customer will prefer doing business with you because you treated the customer distinctively different and better (however the customer defines it) than your competitors did. Positive behavioral differentiation has several important effects. First, it's memorable. When people go out of their way to do something helpful to us, we tend to remember them and what they did for us—largely because the experience was

pleasurable. Second, positive BD causes liking. We tend to like the people who have been kinder, friendlier, more helpful, and more caring toward us. For the same reasons that we seek pleasure and avoid pain, we prefer to deal with people we like more than with those we don't.

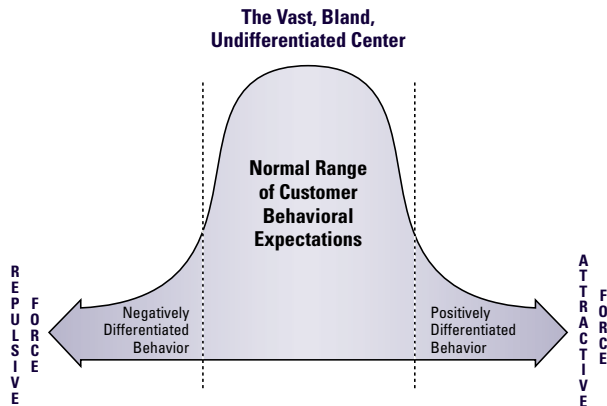


Figure 1. **Range of Customer Behavioral Expectation**

The behaviors customers normally experience from sellers fall into the middle hump of the curve and do not differentiate. Behaviors at each extreme, however, are one or more standard deviations from the norm and will have a differentiated impact on customers, either positively or negatively.

What makes BD so potent—and so dangerous to ignore—is that it can work against you, too. Figure 1 illustrates how behavioral differentiators can either attract or repel customers. Whether customers are buying medical services, appliances, management consulting, cardboard containers, or cold-rolled steel, they have a range of behavioral expectations regarding the people supplying those products or services. This range reflects how the providers they have preferred to work with or buy from in the past have treated them. Consequently, the norm defines their range of *acceptable* behaviors. The majority of providers in any field or industry fall within this normative range—the vast middle hump of the bell curve. Although there may be some variations in how they treat

customers, these providers are behaviorally undifferentiated because everything they do is within the acceptable range.

When a seller's behaviors are noticeably *above* this normal range, the seller is positively differentiated from the pack, and the customer is *attracted* to the seller in much the same way a magnet attracts iron. An invisible bond draws the buyer and seller together. As long as this bond remains strong, the buyer will be biased toward purchasing from the seller. When the seller's behaviors fall *below* the normal range, the effect is *repulsive*—negative differentiation keeps the two objects apart. We think this effect is more pronounced in BD than it is in other forms of differentiation. If you fail to differentiate your products on technical or service grounds, in the customer's eyes you fall into the emptiness of nondiscrimination, the twilight zone of blandness where you simply are no different from many other suppliers who sell the same thing you do.

Why Positive Differentiating Behaviors Are Difficult to Imitate

If, as we have argued, positive behavioral differentiators create an invisible, attractive bond between buyers and sellers, and negative behavioral differentiators create an opposite, repulsive force, then it should be obvious to everyone that behaving well is good for business. Why doesn't everyone do it? Why isn't every company, professional firm, and corner drugstore a model of behavioral differentiation? The answer is that it takes more skill, will, and leadership than most organizations have. That's why the companies that are able to consistently create BD are truly exceptional. The enigma, as we said

earlier, isn't that leaders don't know what to do; the enigma is that they know what to do but don't do it.

The kinds of behaviors that truly differentiate you from your competitors are difficult to fake. It's hard to muster the will if it's not part of your nature. Herb Kelleher's antics, philosophy, and leadership at Southwest Airlines have been well documented over the past two decades, yet no other CEO in the U.S. airline industry has been able to replicate Kelleher's style or Southwest Airlines' success. Why? The answer isn't that they didn't know what to do. The answer is that they lacked the *skill*, *will*, and *leadership* to match Southwest Airlines' behavioral differentiators. Consequently, Southwest Airlines has been consistently on top of the U.S. airlines industry in numerous categories, has been a *Fortune* magazine Most Admired Company year after year, and has been profitable when the other U.S. airlines have not.

Your company's marketing image can be deceiving for a while. You can claim to be the best, fastest, most comprehensive, easiest to work with, most exciting, most luxurious, most personalized, most state-of-the-art, most advanced, and so on, but what customers will ultimately believe about you is what you deliver and how you behave toward them. You are how you behave—and you behave how you are.

The Four Types of Behavioral Differentiation

Jan Carlzon, the former CEO of Scandinavian Airlines, referred to customer interactions as "moments of truth." We call them "touch points"—those occasions when someone in a company interacts with or "touches" a customer. Carlzon estimated that his business, which serves the flying public, had millions of such touch points

every year, but every form of business enterprise, no matter whom it serves, has hundreds or thousands of touch points each day.

A salesperson calls on or talks to a customer. An accountant calls a customer's accounts payable department regarding a late check. A shipping manager calls to schedule a delivery. A customer service rep handles a complaint. An executive has lunch with one of the customer's executives. An engineer confers with the customer's plant manager. A company trainer teaches a group of customers how to use a software program. A proposal team submits a proposal. A business development team makes a formal presentation as their final and best effort to win a contract. Every one of these touch points is an opportunity for behavioral differentiation, but the way these individuals accomplish it may be quite different. There are, in fact, four types of behavioral differentiation—*operational*, *interpersonal*, *exceptional*, and *symbolic*.

When retailers and business-to-consumer (B2C) service firms differentiate themselves behaviorally, they most often do it through superior customer service, though this is by no means the only way to create BD. The best of these firms—Wal-Mart, Disney, EMC, Southwest Airlines, Ritz-Carlton, Nordstrom, Marshall Field's, Men's Wearhouse—institutionalize their behavioral differences through their operational practices, customer service policies and procedures, and employee education and training.

We refer to this as **operational** behavioral differentiation because the differentiating behaviors become an integral part of how the company operates. This type of BD would include a company's policies for handling merchandise returns, responding to out-of-the-ordinary customer

requests, communicating with customers (sending cards or thank you notes, for instance), and other *standard operating procedures* for interacting with customers. Although these may be standard company policies—and therefore nothing special to the employees—customers often experience them as extraordinarily good treatment, so the behaviors resulting from these policies differentiate the company in customers’ minds.

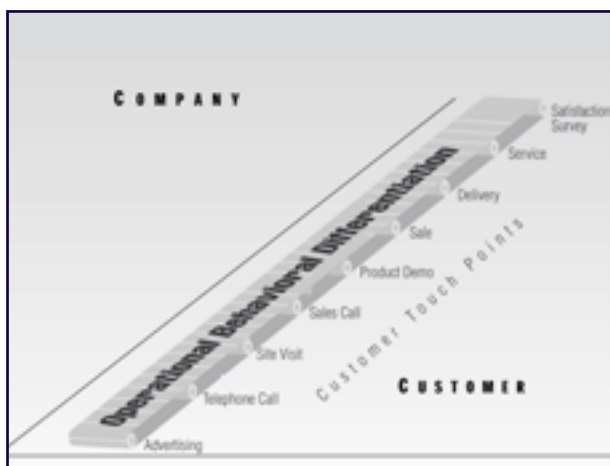


Figure 2. **Operational Behavioral Differentiation**
Operational BD is the foundation of all behavioral differentiation because it reflects standard behaviors that differentiate the company at most customer touch points. It should be a well-oiled machine, like a conveyor belt.

One way to think about operational BD is to imagine your customer touch points as a conveyor belt, as shown in figure 2. If you can operationalize your positive behavioral differences, then customers will differentiate you from your competitors at every touch point. This may sound like a tall order, but a lot of premier companies do it, including Ritz-Carlton, Southwest Airlines, Hall Kinion, Heidrick & Struggles, Men’s Wearhouse, Wal-Mart, and others who understand how to manage their customers’ experiences by managing behavior.

The second form of BD arises from employees’ individual skills and attitudes. We call this **interpersonal** behavioral differentiation. As customers, we all have encountered people in a company we’re buying from who listened well; showed genuine interest in us (as people, not just as buyers); were patient and responsive; and cared whether our needs were satisfied. These kinds of interpersonal behaviors cannot be operationalized *genuinely*. To be sure, sellers can ask their employees to behave this way. They can train them in good interpersonal skills and set the right expectations about how they should behave toward customers. But genuine interpersonal skill arises from the heart, not from policy. The employees who can differentiate themselves and their companies interpersonally are able to do it because it is genuinely part of who they are as people. You can’t fake authentic caring. You can try, but most customers are savvy enough to see through the guise.

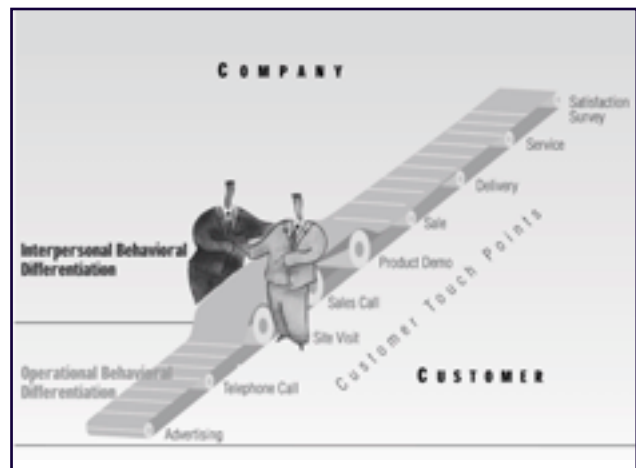


Figure 3. **Interpersonal Behavioral Differentiation**
Interpersonal BDs operate in parallel with operational BDs. They may or may not occur at customer touch points because they rely on the individual attitudes and skills of each employee. They have an amplifying effect on operational behaviors.

Figure 3 illustrates the effect of interpersonal BD. It works in conjunction with your operational BDs and has an amplifying effect if your interpersonal BDs are positive. Conversely, if your employees treat customers poorly from an interpersonal standpoint, then the effect of interpersonal BDs could be subtractive, which means that they take away from whatever advantage you may have gained through your operationalized BDs.

The third type of BD is **exceptional**. It occurs whenever employees go out of their way to help a customer. Exceptional treatment of customers is usually memorable to them because it exceeds their expectations in such positive ways that they recall, long afterward, the extraordinary way they were treated. One might argue that it's possible to operationalize exceptional treatment of customers, which begs the question, Is this really different from the operational form of BD we described earlier?

We think it is because when employees do something exceptional for customers they often violate or ignore the company's policies and standard practices, which, by definition, makes their behavior exceptional. Or the company has no policy or practice to cover a situation that invites exceptional behavior, and employees act on their own initiative to do something exceptional. Of course, all differentiating behaviors are outside the norm of customers' experiences; otherwise, they wouldn't differentiate. But exceptional BD is beyond the high standard already established.

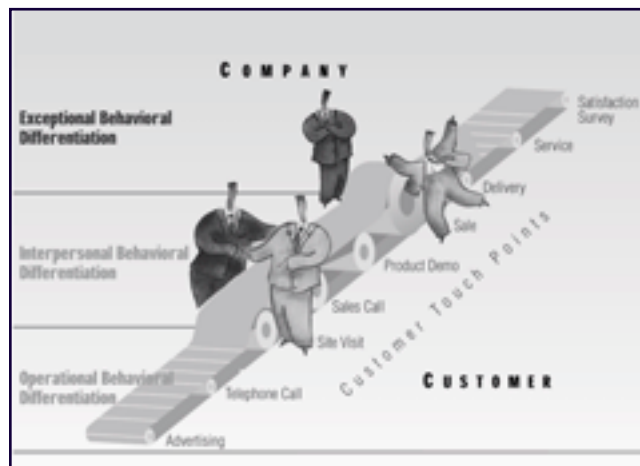


Figure 4. **Exceptional Behavioral Differentiation**

Exceptional BDs are an outgrowth of operational BDs. They can occur when companies and company leaders enable employees to “break the rules” and provide exceptional service to customers. Their amplifying effect is typically even greater than interpersonal BDs.

The effects of exceptional BD are shown in figure 4. Exceptional behaviors also have an amplifying effect on any other behavioral differentiation you have established. Moreover, exceptional BDs have a great capacity to cause *customer delight* because they exceed what customers expected in ways that are both pleasant and memorable.

The final type of BD is **symbolic**, and it is in some ways the most subtle and interesting of the four—and sometimes the hardest to effect. These kinds of behaviors reflect your key product, service, or company messages and values—or your customer's messages and values. They symbolize what you are offering to provide to your customers or how your customers view themselves. When you create symbolic BD, you are aligning your messages with your behaviors—or your messages with your customers' values and messages.

For instance, if you claim in your advertising to be the world's fastest shipping company ("*Every shipment on time or before!*"), then your shipments must always arrive on schedule as promised—or sooner. Furthermore, if *speed* is one of your core messages as a company, a fundamental part of the identity you have created in the marketplace, then your behaviors should exemplify speed. You can't send an overnight package that arrives two days late. You can't promise to return a call on Tuesday and then not call until Wednesday. You can't schedule a sales meeting for 3:00 and then get stuck in traffic and fail to arrive on time. Your promise of speed becomes emblematic of how you operate. It is both an expressed and implied promise to your customers. Speed and promptness must therefore be reflected in *all* your touch points with customers, in *every* behavior they observe, not just with your shipments. If your competitors also promise prompt delivery, but they are not prompt in all their behaviors—and you are—you will be "walking the talk" and differentiating yourself symbolically.

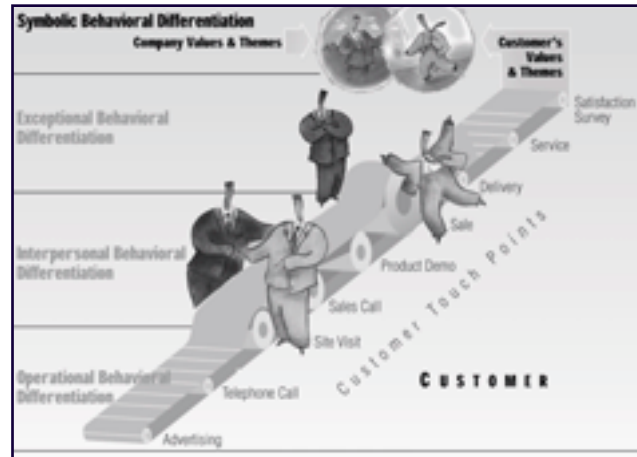


Figure 5. **Symbolic Behavioral Differentiation**

The complete BD picture includes symbolic behavioral differentiation, which reflects the alignment of your and the customer's values and themes. All four types of BD could be present at any touch point.

Figure 5 shows the effects of symbolic BD, which reflects the alignment of your and the customer's values and themes. Symbolic BD tends to be powerful because it resonates with customers at a deep, often subconscious level.

Positive Operational Behaviors

- ✓ A "sales associate" greets customers at the front entrance and helps them find what they're looking for (if they need help).
- ✓ As standard practice, your employees are trained to look for customers who seem to be lost or appear to need help and then to step up and offer assistance. If patrons are leaving the store empty handed, employees ask if they could help them find what they were looking for.
- ✓ A store has a "no fault" return policy and salespeople are invariably friendly and eager to please customers—even to the point of accepting as "returns" some items the store doesn't carry.
- ✓ From your CEO on down, your executives are committed to having frequent face-to-face contact with key customer executives. Your account managers participate in these regular interactions and act as advocates for the customers' interests.
- ✓ Your salespeople send personal "thank-you" notes after every meeting with customers.
- ✓ Instead of bringing standard brochures and product or service descriptions to meetings with customers and prospects, it's your policy to develop high-quality, customized executive summaries that are focused on your customer's needs, key issues, and concerns.

Positive Operational Behaviors continued

✓ You know what your customers are interested in—hobbies and personal interests as well as business interests. You look for and send them things you know they'd enjoy seeing: newspaper clippings, journal or magazine articles, Web site addresses, books, videotapes, etc. What you send never has strings attached ("Let's have lunch and talk about our new. . ."). Instead, you do it as a courtesy because you know they have these interests.
✓ If customers have problems installing or operating your equipment, you send a service rep to help them free of charge, and your rep stays with that customer until the problems are resolved and the equipment is working as it should.
✓ Your firm's practice is to open offices near your clients' largest regional locations so your professionals are available locally to serve those clients.
✓ It is company policy for all executives—including the CEO—to visit some stores once a month. Whenever they are in a store, they serve customers along with the regular sales staff. Moreover, every executive is expected to model exemplary customer relationship skills—and they do.
✓ You regularly meet with your customer's consumers to learn more about what they want and expect from your customer's products. Periodically, you videotape some consumer focus groups and send the tapes, along with suggestions, to your customer. On a semiannual basis, you strategize with your customer about how they can better serve the consumers and how you can better serve them.
✓ You go out of your way to show the customer how to reduce costs, improve productivity, or otherwise improve their business operations or results. Your sales reps are called "senior consultants" and are trained to go beyond selling their products and provide active business consulting to the customer.
✓ You respond within one hour to every customer complaint and resolve problems quickly and at no additional cost to the customer.

Operational BDs like these can and should be managed. They must be normalized so that every customer at every touch point receives and perceives special treatment. Unless you manage your people and processes so these behaviors are systematic and consistent, you won't create a sustainable behavioral advantage.

Negative Operational Behaviors

✓ Customers wander your store looking for help but can't find anyone to help them.
✓ Your wait staff is required to clear tables as quickly as possible, particularly during the busy lunch and dinner periods. As soon as patrons look like they have stopped eating, your waiters and waitresses clear their plates, even if food remains on them.
✓ Your employees have little authority to handle customer complaints or problems and must seek a manager's approval to resolve many customer issues.
✓ Your company has a strong engineering focus. The sales reps are treated like second-class citizens and have trouble gaining the respect or cooperation of others in your company, including senior management. Customers sense this and know that your sales reps don't have the power or authority to solve their problems, although they mostly see the sales reps.

Negative Operational Behaviors *continued*

✓ You have a long, automated menu on your customer telephone lines, and customers are forced to go through multiple options to find what they need.
✓ To discourage returns, your “unofficial” policy is to frustrate customers who are returning an item or who call to file a complaint. You have deliberate procedures for making the process difficult. For instance, customers returning items are required to have receipts and must fill out a lengthy form indicating the reasons for the return. All returns require a supervisor’s approval.
✓ You understaff your customer service department and install an automated system to handle customer calls. However, the “help” line is nothing more than an automated answering system that provides answers to frequently asked questions. Customers don’t have another number to call, and this one does not enable them to reach a human being.
✓ Your company has a strict thirty-day policy on receiving payments. If a customer’s check is not entered into your system by the end of that period, the computer automatically generates a threatening “late payment” notice. If payment is not received within fifteen days of that notice, customers are sent a “collections” notice and the account is turned over to a collection agency.
✓ Customers have difficulty locating the “right” person in your company who can help them. They are referred endlessly to others or are given other numbers to call—which are frequently busy.
✓ Your field sales and service reps have limited decision-making authority. They must go through four levels of management to seek exceptions to policy or get approval for major cost expenditures to solve problems with customers’ equipment.

Positive Interpersonal Behaviors

✓ Being enthusiastic about others’ ideas
✓ Being fully engaged with others during interactions
✓ Being genuinely interested in others—setting aside time for them, being interested in them and their lives
✓ Encouraging others; validating them
✓ Showing an interest in continuing the conversation or relationship
✓ Being curious about others and their needs
✓ Taking the initiative to help others; doing more than what is required or expected
✓ Being willing to disclose who they are, so it becomes a personal encounter; not a transaction
✓ Having a sense of humor and not taking themselves too seriously so others can relate to them as human beings
✓ Being responsive; responding appropriately to the situation
✓ Showing appropriate empathy
✓ Being transparent about their intentions, priorities, and decisions
✓ Having a genuine desire to help make others happy, satisfy their needs, help them solve their problems

Negative Interpersonal Behaviors

✓ Being apathetic; going through the motions; doing only what is required
✓ Being unresponsive; ignoring others
✓ Not listening; talking over others
✓ Being terse; not giving the time; cutting interactions as short as possible
✓ Being sarcastic, patronizing, or condescending
✓ Being inauthentic; showing only a facade
✓ Being narcissistic; intensely self-absorbed; uninterested in anyone but themselves
✓ Attacking or dismissing what others have to say
✓ Being intimidating; using a hostile tone of voice
✓ Trying to take advantage of others
✓ Refusing to make exceptions to the rules (when they could)
✓ Being pushy; trying to get their way, to “win” even if others lose
✓ Being dishonest, deceitful, or manipulative

Positive Exceptional Behaviors

✓ Four of your hotel guests are talking in the lobby about where to go for dinner. They don't know the restaurants in the area but are sure they don't want to go to the chain restaurant near the hotel. One of your employees, who is about to go off shift, overhears them and offers to drive them to a better restaurant and pick them up when they are through.
✓ You are a nurse whose shift has ended, but one patient who is undergoing a difficult procedure the next morning is frightened. You spend most of your evening with the patient—talking, reading to her, reassuring her about the procedure, and leaving only when she's asleep.
✓ You are a teacher. Although you are not highly paid and need the money for your own family, you buy supplies and textbooks for eight students whose families can't afford them.
✓ You pull some strings for a customer—getting tickets that are hard to come by, helping his child get an interview or get accepted at a university, or going out of the way to introduce him to someone important.
✓ You don't have what the customer wants, so you obtain it from one of your competitors in order to satisfy the customer's needs.
✓ You are a dentist. At the end of every day, you telephone the patients you saw that day at their homes and ask how they are doing.
✓ The customer left something important in your office. You drive to her home that evening and return it.

Positive Exceptional Behaviors continued

- ✓ You work in a large department store. A client of one of your customers has flown into town for an important job interview, and the airlines lost his luggage. It's Sunday, the store is closed, and the interview is at 8:00 Monday morning. You open the store by yourself on Sunday evening, escort the client to all appropriate departments and get him what he needs, hem his trousers at no extra charge, and ensure that he will be well dressed and ready for his interview the next morning.
- ✓ The customer buys a self-installation item but has trouble installing it. You go to the customer's business location or home and help install it at no charge.

Negative Exceptional Behaviors

- ✓ Employees notice a customer in need but choose to do nothing about it, and the customer senses this.
- ✓ Employees know that something should be done but decide, "It's not my job."
- ✓ Employees could do more for customers, but it would interfere with their breaks.
- ✓ Employees feel that customers should be more self-sufficient. They manifest the attitude that if customers can't figure it out, that's their problem.
- ✓ Employees are angry with the company and take it out on customers, which they regard as the company's problem, not theirs.
- ✓ Customers have an extraordinary need and employees don't do anything about it, although they could if they really wanted to. Their excuse is that "it's against our policy."

When you fail to do something exceptional for customers, they sense that you have passed on the opportunity and are unwilling to step outside the real or virtual boundaries you have established for serving their needs. Of course, there are customers who will press every advantage and practically demand special treatment. You may have to impose sensible boundaries with them or they'll consume you, your employees, and your business.

Goodwill in the interchange between buyers and sellers depends on an unspoken *quid pro quo*: "If you treat me right, I'll treat you right." This sense of reciprocity extends not only to the exchange of value in product for price (as a customer I want to receive fair value for my money) but also to the social interaction (I want to be treated with courtesy and respect). When either party violates this unspoken *quid pro quo*, goodwill suffers and each party becomes more defensive.

Positive Symbolic Behaviors

✓ You manufacture and sell a line of men's mid-range business wear, including a brand of suits, trousers, and sport coats called Everprest. True to their name, they don't wrinkle, even after extended wear. Your male employees who come in contact with customers, including sales reps and executives, wear your line of clothing, and their suits, jackets, and pants are never wrinkled.
✓ You claim to excel at project management—and your presentations begin and end on time. You demonstrate good project management in everything you do with the customer. You never miss deadlines.
✓ Your establishment promotes cleanliness and courteous service—and your facilities are always clean and your people always courteous.
✓ You run a health club—and your managers, trainers and other employees are themselves trim and physically fit.
✓ You sell network services and equipment—and your company has a state-of-the-art network.
✓ You sell productivity software. You use the software yourselves and are models of high productivity in everything you do.
✓ You advertise authentic Mexican food in your restaurant—and your servers speak Spanish and the food is Mexican, not Tex-Mex.
✓ You emphasize the safety of your operations. Everything on your project sites is safe, and your people emphasize safety in everything they do.
✓ Part of your ad slogan is "fast and efficient service"—and customers never have to wait more than a few minutes to be served.
✓ You say your coffee is always fresh—and it always is.
✓ Your slogan implies that the flight attendants on your airplanes are friendly—and they invariably are.

Of course, the danger in making promises is not keeping them, which can convert customers into cynics. Customers expect you to walk the talk. When you don't, they become jaded. They question whether they are receiving a fair exchange of value for their money and whether any of your promises can be trusted. Consider the following situations in which a company's implied or expressed promises are not reflected in their behavior:

Negative Symbolic Behaviors

✓ You claim to be an international firm and have excellent knowledge of local conditions around the world, but your representative doesn't speak the local language and is unaware of an impending ministry change that could affect the customer's business.
✓ You run a major car rental company that takes pride in the quality of its service. Everything in the image you create is first rate. However, customers frequently experience long lines and haggard representatives at your counters and have difficulty finding an attendant to check them in when they return cars. What's even more exasperating is that your employees take their breaks in plain view of returning customers, so it appears that your people don't care if customers are kept waiting.

Negative Symbolic Behaviors *continued*

- ✓ You create a trendy restaurant, co-owned and promoted by famous Hollywood stars, that capitalizes on the Hollywood mystique. However, the food is unremarkable, the décor is undistinguished from other trendy restaurants, and after the initial hoopla fades, patrons rarely see anyone from Hollywood in the restaurants.
- ✓ In your proposals, you claim to be state of the art, but you don't have the latest technology and don't seem to be aware of advances one of your competitors just made.
- ✓ You are a search firm and claim to excel at cross-border searches, but your offices operate autonomously. Actual cross-border searches often do not produce the best candidates in a reasonable period of time because your compensation and election policies reward completion of local searches and building of the local office. There are few actual incentives to cooperate with offices in other countries except the goodwill of your professionals, which is inadequate more often than you want to admit.
- ✓ You claim to offer fast, courteous service, but your receptionist is abrupt with people on the phone, and your executives don't return calls promptly (in fact, sometimes not at all).
- ✓ You claim to be experts in investment management. However, my plain vanilla stock index fund has performed much better than the funds you have managed for me, and I get better information on stock trends and potential investments from The Motley Fool (www.fool.com) than I do from you.

Walking the talk can be difficult because a company's messages are usually conceived by its leaders, aided by marketing managers and creative teams from ad agencies, and there may be little actual correspondence between those messages and the living values, attitudes, processes, and actions of the hundreds or thousands of people who do the company's daily, frontline interacting with customers. Any executive who's tried to drive a major change program throughout a company knows how time consuming and difficult a task it can be—and the legions of books on change management testify to how frequently it fails.

The Forces that Drive Behavioral Differentiation

Would Wal-Mart have become Wal-Mart without Sam Walton? Would Southwest Airlines have outperformed all the major airline companies without Herb Kelleher? Would Ritz-Carlton have won the Malcolm Baldrige National Quality Award twice without the culture Horst Schulze shaped when he said, "We are ladies and gentlemen serving ladies and gentlemen"? Would Harley-Davidson's share price have increased 15,000 percent since it went public if Harley had not found effective ways to sell the *experience* rather

than the product? Business behavior that truly differentiates a company from its rivals is, by definition, exceptional. Customers may experience exceptional behavior with *any* company from time to time, but companies are unlikely to sustain behavioral differentiation and create a significant competitive advantage for themselves unless some guiding forces drive their behavioral differences. Those guiding forces are leadership, culture, and process.

The most important of these driving forces is leadership. Without the will of the company's leaders, extraordinary behavior throughout an

organization could not be sustained, even if it occasionally happened, because in the long run most people in the organization would tend to behave in ways that reflect the norm of human behavior. It's what they *normally* experience, so it's how they would *normally* behave. That vast hump in the middle of the bell curve (fig. 1) exists because it is how most people in most businesses behave most of the time.

“When you survive by reinventing yourself every other day, it's tough to differentiate on a product difference alone.”

Jack Trout

Differentiate or Die: Survival in Our Era of Killer Competition

Consistently behaving in extraordinary ways requires the vision, guidance, teaching, and modeling of leaders like Sam Walton, Herb Kelleher, George Zimmer (CEO of Men's Wearhouse), and Horst Schulze (former CEO of Ritz-Carlton). What these leaders possess is not simply a commitment to treat customers extraordinarily but the determination to make it happen consistently and the will to see it through, even in the face of opposition and early failures. Southwest Airlines is a case in point. In its formative years, Herb Kelleher and his partners faced daunting opposition and nearly failed to get the new airline off the ground. It took courage and a fierce commitment to the vision for Kelleher to prevail.

Leaders like Herb Kelleher and Sam Walton were extraordinary themselves, and they built extraordinary companies because they had

the courage to ignore the standard, successful business models in their industries; the self-confidence to invest in their vision; and the determination to persist in the face of doubters, skeptics, and those who actively opposed them. Moreover, like Horst Schulze, they understood that behavior can be a key differentiator for their companies—and this truly sets them apart as business leaders. The standard MBA approach to business leadership is analytical and focuses on such things as product innovation, distribution channels, marketing, organizational structure, asset management, strategic and financial planning, risk analysis, and other analytical and managerial areas of expertise.

Clearly, these are important, but we believe they miss the real point about getting and keeping customers. For the most part, these technical facets of business management constitute the “hardware” of a business. The products you produce, the distribution channels you use, the facilities you have, the resources you need—these are dictated to a large extent by the type of business you are in and by customers' expectations of anyone who sells your types of products or services.

Of course, there is tremendous variability in how different companies deploy and manage their “hardware,” but all companies are as constricted in their “hardware” as Dell, Compaq, Gateway, and IBM are constricted in the desktop hardware they manufacture or assemble. Ritz-Carlton is in the hospitality industry, for example. It rents hotel rooms to guests and provides them with other amenities, the nature of which is dictated in large part by guests' expectations. Ritz-Carlton may provide a more upscale hospitality experience than most other hotel providers, but they are nonetheless constricted in their choices of what

they provide and how they provide it. As long as Ritz-Carlton remains in the hotel business, their guests will expect certain things when they stay at a Ritz-Carlton (a room, a bed, a telephone, a place to dine, somewhere to park the car, etc.), and Ritz-Carlton cannot deviate from those basic expectations without penalty.

At one time, Harley-Davidson tried to expand its business through a line of recreational vehicles (RVs) called Holiday Rambler. Though the RVs they sold were a sound product line, they did not fit the Harley-Davidson culture. No one in the marketplace (and probably few in the company) accepted the concept. Holiday Rambler was a perennial underperformer in Harley-Davidson's line up and did not fit in the product mix, so Harley divested the unit and sold it to Monaco Coach Company in 1996. The business adage that you should "stick to your knitting" derives from the realization that the "hardware" of business offers little flexibility. Market expectations limit your options.

Companies have considerably greater leverage with the "software" of their business—their people, policies, and processes, which manifest the company's values and culture. Horst Schulze instinctively understood that he could gain the greatest leverage at Ritz-Carlton on the soft side of the enterprise: whom you hire and where you put them, what expectations you set, what responsibilities you give them and what degrees of freedom you allow, how you educate them and reinforce their education, what you reward and how you motivate people, and how you design both their work and their interactions with customers.

Leaders who excel at building and sustaining behavioral differentiation invariably focus more of their time and attention on the soft side. Ram

Charan and Geoffrey Colvin argue that many companies mistakenly cut the soft side during hard times: "We hope it's no longer necessary to argue that [people are] increasingly your company's only source of competitive advantage. Yet when times get tough, many companies ease up on recruiting, figuring a slow economy will drive more applicants their way, and they spend less on training as a way to raise profits quickly without doing immediate damage to the business. That's just dumb. People do become obsolete; they also grow."¹

"We emotionally engage our employees, and we engage our customers by establishing a personal contact with the idea of creating a product that is exactly what they want—an exceptional hotel and exceptional service. The key is not what we do but how we execute what we do. That is what differentiates us. We have a very well-defined process for creating extraordinary service and a bond with our customers."

Leonardo Inghilleri
Senior Vice President and Brand Executive
Bulgari Company Hotels and Resorts

Leadership is the principal driving force in BD because companies, like all systems, tend to lose their edge without a constant infusion of "leadership energy." In physics, this phenomenon is called entropy, which is defined by the second law of thermodynamics. According to this physical law, in any system there is a natural tendency toward increasing disorder unless energy is applied to impose order. For example, unless you expend energy to maintain your home, it will eventually

¹ Ram Charan and Geoffrey Colvin, "Managing for the Slowdown," *Fortune*, February 5, 2001, 80.

become decrepit. Similarly, unless leaders in a company expend energy to sustain behavioral differentiation, their company's behaviors will eventually devolve toward the middle of the bell curve. A vast sameness pervades all industries. Most companies will tend to be uniform and essentially indistinguishable from each other except for those that are inspired by leaders whose vision and determination provide the energy that keeps the company operating at the positive, upper end of the bell curve (fig. 1).

It would be a mistake, however, to assume that leadership alone will suffice. Leaders come and go. Moreover, leaders are not always visible, day-to-day, to the people in the field who interact with customers at various touch points. Their presence is often more symbolic than real, so leaders need the complementary forces of *culture* and *process* to sustain BD and ensure that it occurs in the majority of customer interactions. Culture is particularly important because it forms the basis for how most people in an organization behave most of the time. Culture is the map that shows people what the territory looks like, where things are, and how to get there. It establishes behavioral expectations and sets the boundaries one should not cross. Culture is the carrier of values, although there may be a difference between the espoused values of the culture and the values in action. In strong cultures, like that of Southwest Airlines, what the founding leader created is perpetuated through the collective behavior, values, and will of the employees who remain after the leader has gone.

The other driving force that helps leaders sustain BD is *process*, which includes the internally focused systems and processes for recruiting, educating, managing, and rewarding people, and the externally focused systems and processes for

getting and keeping customers, communicating with them, serving their needs, and managing customer relationships. Processes are the workhorses of BD because they establish the behaviors that should occur during normal interactions with employees and customers.

“Delivering quality service means that you do well the things that are important to the customer. Doing things well that are not important has no impact. Actually, the only time customers are impressed by service is when it goes well beyond their expectations. Not meeting their expectations is their definition of poor service. Providing fabled service requires careful attention to the changing needs and desires of the customers, making them the drivers of your business.”

Betsy Sanders

Fabled Service: Ordinary Acts, Extraordinary Outcomes

EMC is a Massachusetts-based information storage company with exceptional processes for managing customer service. Their process for escalating customer problems up the chain of command if they are not resolved quickly is an example of a behaviorally differentiating process that was driven by leadership. When Mike Ruettgers took over as CEO he centralized the management and dispatching functions of all service activities and decided to implement the rapid-escalation system. He and his team devised this process so they could differentiate themselves from their competitors and show their customers the kind of commitment they were making to protect customers' mission-critical information.

Together, leadership, culture, and process are the forces that drive behavioral differentiation. Leaders provide the direction and energy that shapes the culture and the values of the organization. They also create or inspire the systems and processes that guide behavior day to day. The companies we have studied that exemplify BD have leaders (who may also be founders) who understand that how they treat their employees and how their company treats customers can give them a significant competitive advantage. These leaders create cultures that shape attitudes, values, beliefs, policies, and behaviors that result in extraordinary experiences for customers, and they build processes that institutionalize the exceptional.

Why You Should Care About Behavioral Differentiation

If we take the most uncomplicated look at business, we see that business leaders can really manage only three things: the products or services they produce (along with how they deliver those to the markets they serve), what they charge for those products or services (which is a function of the ability to control costs), and how they behave toward customers. Everything else in business management is a function of these three things: **products**, **price**, and **behavior**.

Products

Businesses devote considerable time and attention to *what* they produce and *how* they produce it, distribute it, market it, sell it, and service it. Companies normally strive to differentiate themselves on one or more of these functions of business management: innovation, product/service design, production, distribution, marketing & sales, or customer service. Although these are reasonable

avenues for differentiation, they can be copied easily by competitors with the resources and will to do so. In the highly competitive and entropic markets most companies face today, product and service differentiation has a short half life. You can perhaps gain some temporary advantages through innovation, but your competitors will be motivated to eliminate those advantages as quickly as possible.

Here's a little self-test: How much of a product differentiation advantage do you currently have? Are you finding it increasingly difficult to maintain your product differentiation? If you are like most companies, the answer to the second question is yes.

Price

Price can differentiate you if your products cannot. However, to sustain price as a competitive advantage you'd better have the internal systems and external controls necessary to remain the low-price leader. Your competitors will envy your low-cost controls and will try to emulate them, so you may have to continually beat down costs. Wal-Mart has been able to do this so far, but there are signs that their strategy is weakening. To keep costs down, they have had to reduce the number of employees in their stores, and customers are beginning to see the effects. It's harder to get service in a Wal-Mart these days. Eventually, this will erode the behavioral advantages Wal-Mart enjoyed ten years ago.

Here's another self-test: Where are your prices relative to your competitors' prices? Do you enjoy a price advantage? Are you the low-price leader? Are you in the middle of the pack on price? Or are your prices higher than your competitors?

Behavior

Finally, behavior can be a powerful differentiator if product and price are undifferentiating. In other words, if your products are similar to your competitors' products and both of you charge about the same amount, then superior behavior can be a powerful differentiator. However, if a competitor offers a superior product on the market, then the effect of behavior will be diminished. Customers will tend to buy the superior product, especially if price is not an issue. If the superior product costs considerably more, then customers will weigh the benefits of the superior product and determine whether the price tradeoff is worth it. However, when product and price are relatively equal in the customer's mind, then behavior is a strong differentiator. Here are some equations, if you will, that express the relationships among these three variables:

1. If competing products are equal in value, then price drives the buying decision. Lower price will usually win.
2. If competing products are *not* equal in value, then the superior product drives the buying decision if the price differential is acceptable and if the differentiating features of the superior product are sufficiently attractive to buyers.
3. If competing products are equal in value and the prices are relatively equal (within an acceptable range), then behavior drives the buying decision.

As these equations suggest, most customers follow a decision hierarchy when they buy something. Generally, the most important consideration is the product. They want what they need, or they need what they want. In any case,

getting the *right thing* is generally most important to most buyers. However, if buyers' resources are limited, then price can become the most important factor in the buying decision:

4. When the buyer's resources are limited, price drives the buying decision if the competing products are similar in nature (although they may be dissimilar in quality).

Discount stores thrive in some market segments because buyers do not have the resources to pay for higher-priced products (although they probably would if they had more money because few people would buy shoddy products if they could afford higher quality).

Today, especially in mature industries and markets, the competing products are very similar and the prices being charged are usually close to the mean. Any imbalances in the function or quality of competing products tend to be eliminated quickly, and differences in price tend to evaporate as competitors learn what others are charging and adjust their pricing accordingly. Consequently, equation 3 above is playing a greater and greater role in how buyers make decisions. When they can get essentially the same products or services at essentially the same prices, then they will choose to work with the suppliers whose behavior toward them is most positive.

“Behavior is a mirror in which everyone shows his image.”

Johann Wolfgang von Goethe

Here's a final self-test: To what extent does your behavior toward customers differentiate you from your competitors? Look at the bell curve again (fig.1). In all candor, where would your customers perceive your behavior in this bell curve? Would you fall in the vast, undifferentiated hump in the middle? Or are your behaviors significantly negative or positive?

You should care about behavioral differentiation because it is an aspect of your business that you can manage. You can behave in ways that enable you to build your competitive advantage.

You should care about behavioral differentiation because if your competitors are outbehaving you, then you are losing business you should not be losing. You should care about it because it is an excellent source of sustainable advantage and because it can help you build greater customer loyalty and greater market share.

In an era of hypercompetitive markets and increasing competition, behavioral differentiation may be the best opportunity you have to win more business. ■



Dr. David G. Pugh

About the Authors

David Pugh is cofounder and executive vice president of Lore International Institute and an internationally respected authority on business development.

He has led workshops throughout the United States and in Canada, Brazil, Hong Kong, Japan, United Arab Emirates, New Zealand, Australia, Portugal, France, Germany, England, Scotland, South Africa, the Netherlands, Sweden, Switzerland, and Norway. As the architect of Lore's proposal training and consulting services as well as the author of *Proposing to Win*, his knowledge of proposal design and writing techniques has helped generate billions of dollars in signed contracts for Lore clients.

David has taught for more than 25 years in both the academic and business worlds. He has conducted hundreds of workshops for more than 10,000 Fortune 500 personnel and has helped thousands of engineers, marketers, sales executives, business

development professionals, and managers improve performance by providing practical, down-to-earth techniques that work. An award-winning author and instructional designer, David has been a primary developer of Lore's business development curriculum and a popular keynote speaker at over 20 regional and national conferences in just the last two years.

Based on his work with Lore clients around the world and across industries, David has co-authored the book *Winning Behavior: What the Smartest, Most Successful Companies Do Differently*, scheduled for publication early in 2003. He has also published a series of white papers such as "Winning More Than Your Share" and "A Bidder's Dozen: Golden Rules for Winning Work" along with articles on business development in various trade journals.

David's education includes a Ph.D. in American studies, Washington State University; MA in English, Washington State University; and a BA in English, Eastern Washington University. He is also a graduate of executive programs at the Wharton School, Stanford Graduate School of Business, and University of Chicago Graduate School of Business.



Dr. Terry R. Bacon

Terry is founder, CEO, and president of Lore International Institute. Terry served as a U.S. Army officer from 1969 to 1974. During that period he was an artillery officer, an intelligence analyst, and a counterintelligence officer.

He finished his army career as an analyst for the Defense

Intelligence Agency in the Pentagon. After receiving a Ph.D., Terry taught at The American University and the University of Utah until 1977, when he joined a consulting firm offering communication skills training to government agencies and corporations throughout the United States. In 1987, he left that firm and worked with the Center for Creative Learning until 1989, when he founded Lore.

In his career in corporate education, Terry has created nearly fifty programs in writing, speaking, interpersonal skills, conflict handling, leadership, proposal writing, management, selling skills, influencing, marketing, strategic planning, and account management. He has delivered thousands of workshops to business groups worldwide. He has also served as a psychological counselor, working with clients in the areas of self-development, career development, leadership, conflict and problem resolution, and sexual abuse.

Terry is a prolific author, having written or cowritten nearly 80 books, film scripts, simulations, and white papers. His books include *Leadership Through Influence*, *Effective People Skills*, *Leading in a Boundaryless Organization*, *High-Impact Facilitation*, *Helping Customers Buy*, and *Proposing to Win*. He has also created a number of skills surveys and assessments, such as the *Survey of Influence Effectiveness*, the *Coaching Effectiveness Survey*,

and the *Lore Leadership Assessment*. Terry is a frequent speaker on topics related to leadership, sales and strategic account management, and corporate education. His most recent publication is *Selling to Major Accounts*, a book on strategic account management published by the American Management Association Press.

Terry has a B.S. in Engineering from the United States Military Academy at West Point and a Ph.D. in English from The American University in Washington, DC. He has also studied business and marketing at the Roosevelt University, and strategic planning at the Wharton School of Business, sales management at the University of Chicago School of Business, psychology and counseling from Goddard College, and business management and leadership at Stanford University.

About Lore

Lore is a firm specializing in professional development, corporate education, and consulting services related to maximizing business results through people. Though headquartered in Durango, Colorado, Lore provides programs and services worldwide. Our firm helps clients differentiate themselves and grow their businesses through the development of people and the processes and tools they use to do their work. Lore's Research Institute, Consulting Group, and Professional Development Group work in concert to provide practical, research-based solutions through a variety of consulting and learning methodologies.

For information on how Lore can help your organization achieve its goals, call 800-866-5548 or visit our Web site at www.LoreNet.com



800-866-5548
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\$10.95
ISBN 1-57740-088-9

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