Moments of Truth or Distrust

by Richard Gibbs and Andrew Humphries

In 1988, Jan Carlzon, president of Scandinavian Airlines, published a thin book called **Moments of Truth** with Tom Peters. A moment of truth occurs when a customer comes in contact with your company and experiences your level of quality. By becoming a customer-oriented company organized for change Carlzon was able to turn around the then ailing SAS and return it to profitability.

There are two remarkable points here. First that it is 30 years since the book was published and secondly that most people forget the second part of the concept; that Moments of Truth is as much about change as it is about quality orientation.

Think for a moment what the world was like in 1988. Microsoft Windows 2.0 was just released and we had to wait two years until Windows 3.0 before we had anything that was to prove popular and workable. No Internet of course but think about the broader context. The Soviet Union and China were behind closed doors. The Asian Tigers were kittens and India was remote and third world.

The change that has taken place in 30 years is unprecedented and the world we live in, whether you think of it as flat or spikey, is radically different. The EU has 27 countries and a third of the world's consumption. Manufacturing has shifted to the Far East with a quality that is now impressive and often superior. And the emergent Silicon Valley of 1988 has moved, at least spiritually, to Bangalore.

But this change has not stopped.

Technological innovation continues to drive functionality higher. The Internet has created new businesses and a new intelligent consumer who has access to information and a far greater choice of products than ever before.

Carlzon's message remains relevant. Quality is critical and embracing change needs to be culturally embedded. But in a way the challenge for us today is even more difficult.

Delivering quality products or services or processes to our customers is simply not enough. Global competition has meant that we need to find competitive advantage in other places. Tracking and monitoring customer and consumer trends is like trying to catch the wind. It moves too quickly in many different directions. The market is fragmented. The consumer is ahead of us, determining what a brand means and the transaction experience that they are looking for.

So how are smart firms responding nowadays? We've done the downsizing. We've done process re-engineering. Smart firms have figured out that they cannot do it alone. They've figured out that the demands of the market place means that to provide a unique value means that they need to collaborate. That only by combining their skills and competencies with those of other firms can they find a position that gives them a truly unique advantage. That they need to partner with other firms and cooperate in ways that were previously unthought-of. That they need to partner with their marketing channels to deliver value added solutions; they need to partner with their strategic alliances to develop new products or leverage bi-lateral investments; they need to partner with their suppliers to ensure the optimum sourcing, logistics and manufacturing; they need to partner with their customers to create value through key account initiatives. And they need to partner with their competitors, with ‘co-opetitors’, to build or defend positions of strength.

Why? Because successful collaborators can reap very real benefits. IBM’s study[1] has shown that successful collaborators enjoy better margins; collaboration is the source of more innovation and new product development. Successful partnerships enable better return on marketing investments.

Carlzon’s Moments of Truth has shifted from a focus solely on the customer to a focus on your partnerships, the network of firms with whom you work to deliver the moment of truth for the end customer or consumer.

So here is the challenge. How can I ensure that each interaction with my partners, marketing channels, alliances, suppliers, key accounts meets and exceeds their expectations or requirements?

The world of partnering can be split into two halves; those who are in the Spiral of Failure and those who are in the Spiral of Success[2]. The rewards of tomorrow will go to those in the Spiral of Success. The others will fail.

It is as simple as that!

In the Spiral of Failure we see each Moment of Truth changing into a Moment of Mistrust.

Partners feel trapped in an unfulfilling relationship where the only way forward is to think of one’s own interests and place them ahead of the partnership. The partnership is seen as a necessary evil and the least commitment that is given the better. In fact quite often these partnerships revert into adversarial relationships where contracts and service levels are the mantra and success is measured by the immediacy of the return, the lack of strategic investment and holding onto to information as a lever to gaining the upper hand or tactical advantage. Think of some of your relationships with your strategic alliances, your distributors or marketing channels or even your key accounts. Does any of this sound familiar?

By contrast the Spiral of Success is characterized by a genuine win-win relationship. But this is more than a motherhood statement. This perspective is realized by focusing

[1] IBM Global Business Services: Expanding the Innovation Horizon. The Global CEO Study 2006
[2] Andrew Humphries & Richard Wilding, Journal of Marketing Management, Nov 2004

on the consistency and quality of the exchanges and looking for opportunities for process improvement. This approach opens the door for the ‘big win’: the ability to creatively innovate and develop new opportunities. It reinforces the commonality of goals and objectives which further encourages open dialogue and enables value to be realized and captured.

The difference between the two couldn’t be greater. The benefits enjoyed in the Spiral of Success not only amount to a competitive advantage but also generate tangible benefits in terms of Return on Investment and improved gross margins.

The Moments of Partnering Truth or Mistrust separates the Spiral of Success from the Spiral of Failure.

Our work has identified the critical components of the Moments of Partnering Truth. Over the last 10 years we have been researching the factors that differentiate successful partnerships from inefficient relationships. Most recently we have been working with major corporations as well as major institutions to help them move from the Spiral of Failure to the Spiral of Success; to convert Moments of Mistrust to Moments of Truth.

The typical challenges and symptoms that confront firm when managing their B2B partnerships and alliances full into a ten categories:

Partner acquisition
Partner retention
High costs of governance / cost to serve
Lack of value creation
Lack of value captured
Poor knowledge transfer
Frequency of joint deals / Scale of joint deals
Inertia / Missed opportunities
High conflict levels
Low ROMI or ROI / Ability to leverage investment

There are three factors that determine whether a firm’s strategic alliance or other partnerships are high performing; whether the firm is in a Spiral of Failure or Success.

The **quality** of the relationship is a critical foundation. We have found that firms that have been able to build trust and commitment with the business partners and customers will also see long lived relations. But that is not the sole benefit. Critically we have found it is the level of mindshare that determines whether a firm can capture or realise what the partnership has created.

We have seen that building trust and commitment forms the platform for relationship **effectiveness**. This is the ability of a partnership to actually deliver upon the original objectives. This necessitates effective collaboration. We have found that many firms set both unrealistic objectives and inoperable plans to achieve them. The reason is that collaboration can only work where there is open and frequent dialogue and where this communication is framed in the context of common and agreed purpose and objectives. Too often firms fail to agree the mutual obligations and shared responsibilities that mean that as alliance partners they are both aligned to achieving the same goals.

Last and not least relationship **efficiency** drives the ability of the partnership to add and create value to the extent higher levels of return on investment and gross margin can be enjoyed. Efficiency is a consequence of a number of key factors. On the one side we return directly to Jan Carlson and the focus on operational excellence and the use of operational metrics to track performance. But here we have found that successful companies are using metrics as a tool to raise standards and develop improved processes. We have seen joint Lean Six Sigma initiatives coming about as a consequence of these reviews. Perhaps unexpectedly conflict management is a key element of relationship efficiency. Conflict management is not simply resolving problems it's also about being able to discuss in a lively and possible heated manner issues and challenges.

We have taken this work further to connect the challenges and symptoms with the enablers and with specific attributes or characteristics that make up a firms performance in a particular area. For example, we have established that **Reliability**, **Flexibility** and **Consistency** are critical measures of success for developing relationship effectiveness, and that **Constructive Conflict**, **Effectiveness** and **Compatible Objectives** enable value realisation or relationship efficiency.

So there's the full picture. The difference between Success and Failure; the three new moments of partnering truth: relationship quality, effectiveness and efficiency.

Consider the experience of one firm that has been working with its supply chain partner on a major European initiative. The purpose of the initiative has been to rationalise and centralise service delivery so that major – 'major' is measured in terms of million Euros - cost savings can be made.

Both firms started off with the standard pre contract discussions. The lawyers were lined up and the professional negotiators armed and ready. But they actually decided on a different approach.

The first element that characterised the relationship was both firms set about agreeing what they could achieve as a partnership, what it should deliver for both of them and, a recognition that these objectives could not be delivered without entering into the alliance relationship. That is, these benefits were only accessible through the partnership. The second deviation from the norm was the objectives were discussed in terms of fiscal benefits i.e. Firm A wanted to save €x million and Firm B wanted to achieve x% Gross Margin on the business. This open book approach meant that all cards were on the table with the immediate consequence that the firms recognised that these goals were unrealistic. Given the starting point Firm A could not save €x million if Firm B wanted x% GM. This created conflict early on. But this conflict was channeled into developing commercial models of the value chain and understanding the cost and profit pools of both firms. This is what we call constructive or positive conflict and combined with the use of factual data and evidence enabled the firms to look for creative solutions to the problem. This means that both firms had to make serious investments in new processes and systems which drove commitment and a longer term view such that it was realised that the ambitious goals were pretty much achievable over a three to five year period.

We are to monitor the relationship and measure the performance of these critical Moments of Truth to produce a snapshot of the partnership from both sides of the coin. The picture is revealing. It helps the management focus on the critical areas that ensure the partnership stays on track and , it is able to adapt to the changing conditions in the market and the pressures driving quarterly performance. It also means that we can focus on areas of deviation within the firms large and sometimes fragmented organisations.

Let us summarise.

Carlzon's Moments of Trust can be re aligned to the present to focus on the relationship between a firms and its alliance partners.

Moments of Partnering Truth fall into three big buckets: Relationship Quality, Efficiency and Effectiveness. These buckets contain a mix of elements that firms can use as best practices to earn above average returns and operational performance.

About the authors:

Richard Gibbs and Andrew Humphries have a unique mix of hands on experience and academic research and understanding.

Richard's career spans senior sales and marketing positions in major multinational companies such as Xerox and Novell Inc. Most recently he was responsible for European distribution operations at Xerox where he architected the transition from fragmented to centralised distribution services and managed the dispersed account team charged with managing the established and new distributor relationships. He has been also responsible for European channel management, strategy planning and business management. Richard's business roles are reflected in his academic interests.

He has a PhD from University of Gloucestershire where his thesis investigated the importance of relationship marketing within marketing channels and strategic alliances. Richard has an MBA from Henley Management College and is continuing his research into various aspects of inter-organisational relationships within Europe, specifically addressing how firms can gain competitive advantage through their working partnerships. He lectures and consults on how the performance of business to business partnerships can be improved.

Andrew completed a 34 year career in the Royal Air Force culminating as Head of UK Defence Aviation Logistics. He founded SCCI Ltd, a company located in Milton Keynes UK that specialises in measuring the effectiveness and diagnosing the improvement opportunities in collaborative business relationships. His technique has been successfully used in Rail, Construction, Manufacturing, Retail, Agriculture as well as Defence sector organisations.

Andrew gained his PhD from Cranfield School of Management and his MBA from the Open University. He continues to research the subject of collaboration between organisation and works with a number of universities in the UK and Europe. He has published widely in academic journals such as the British Journal of Management, the European Journal of Marketing, the International Journal of Logistics Management and the Journal of Service Research. He has been featured in the Financial Times, has written for trade and professional magazines and is a speaker at international conferences.

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