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Customers—The Power of Love

Lauren Medsker sat down to enjoy her shot of afternoon wakeup at a Starbucks on 15th Street in Philadelphia. She placed her purse on an empty chair beside her and soon lost herself in a crossword puzzle. Suddenly, she realized she had better scoot to catch the next train on her journey home to New Jersey. Grabbing her purse, she rushed off to the train station. Settling into her seat on the train, she opened her purse. *Her wallet was gone.* Her stomach jumped into her throat. "My God, what will I do? Credit cards. Driver's license. Commerce Bank debit card."

Sprinting from the train in New Jersey to her car, Lauren headed toward the Commerce Bank branch she had banked at since she opened her first account when she was 16. She had never known any other bank. As soon as she entered the branch, a woman got up from her desk and introduced herself as Karen Taylor. "I was pretty frazzled. Karen knew right away I had a problem."

As Lauren fearfully waited for what she expected would be bad news, Karen checked Lauren's account. Karen said softly, "Lauren, they've emptied your account." In the little over an hour it took

Lauren to travel from Philadelphia to the Commerce branch, whoever stole her wallet had made purchases at three stores. Lauren, who lived on waitress earnings, was now poorer by $1,100. She started to panic. She didn't have enough money in her purse to buy a tank of gas.

"Now don't worry," Karen continued. "Everything is going to be all right. I promise you." Karen began making calls to other parts of the bank. In between waiting for the people she was calling to come on the line, Karen began talking Lauren down from her agitated state. To connect with Lauren on a personal level, she began talking about her own daughter. Karen was applying the reciprocal empathy principle discussed in Chapter 3, "The Chaotic Interregnum."

Although her daughter was only 11, Karen projected her into the future, telling Laura how she would feel if the same thing happened to her. Lauren told us, "She took me into her personal space. She really started to get real sentimental, talking about her own daughter and all. That made me feel she really cared. That helped a lot to calm me down. She was so sweet. She kept telling me not to worry. She said she would replace the $1,100, and that by first thing tomorrow morning I could use my debit card as though nothing had ever happened."

Lauren excitedly went on in our interview to say, "You may think this is pretty corny, but just a couple of weeks ago a bunch of my friends and me were sitting in my house talking about customer service. Really, we were. We talked about dentists and doctors and different stores. I told them about Commerce Bank and how it has what it calls "wow parades" when it opens a new branch. They try to get everyone thinking about Commerce Bank and saying wow. I know this because my brother who has a film degree from Temple now works for Commerce. He films the parades. I guess all this sounds corny, but we did sit around the kitchen talking about Commerce Bank. I really love Commerce Bank. And I want to tell everybody about it."

How many banks in America are *loved* by their customers? An employee of another bank might have done the same thing that Karen Taylor did for Lauren, but an empathetic connection with a distressed customer is more likely at Commerce Bank than at most banks, especially big banks where customers are only numbers. Commerce employees learn when they attend classes at Commerce University how to go beyond rendering *pro forma* service to customers to create wow experiences for them. Commerce's founder, Vernon Hill, says his chief concern is "Culture, culture, culture—the problem with most banks is that they abuse their customers every day. We want to wow ours."[1] That is why Commerce has its "Kill a Stupid Rule" program, whereby employees get $100 when they identify a rule that interferes with giving customers wow experiences.

Commerce Bank has done the seemingly near impossible in the banking business. Although it weighs in as one of the fastest-growing banks in America through organic growth since the early 1990s, it retains a human face. As Commerce President Dennis DiFlorio puts it, "The greatest insult you can give someone here is to say, 'You're thinking like a banker.'"[2]

Few companies of any size, in any industry, equal Commerce Bank's passion for customer service—no, passion for giving customers *wow* experiences. How many companies end up being talked about at a gathering of freshly minted young adults as Lauren Medsker talked about Commerce?

We do not lack for ideas on how to keep customers coming back: Delight your customers. Exceed their expectations. Listen to what they say. Give customers what they want. Commerce Bank simply says, "Wow customers." In the end, keeping customers coming back again and again boils down to the wow index of their experiences. How they *feel* usually has more binding power than how they *think*. Customer loyalty is like love: It grows not from reason but from the heart.

Heart is not a word that has been often heard in B-School. But heart—a symbol of empathy, love, nurturing, caring, giving—has recently made a quantum leap and landed smack dab in the middle of mainstream business consciousness. It is okay now to talk about love in the office—in a Platonic sense, of course. It is okay now to promote love between supervisors and line staff (same ground rules). It is okay now to think of customer/company relationships in terms of love.

The problem with all that, however, is that many Wall Street analysts and corporate bean counters have not caught on to the idea that there is much profit to be gained by bringing love into business operations. However, they and any others whose eyes roll at hearing the words *love* and *management* joined together would do well to read James Autry's *Love and Profit.* First published in 1991, the book followed Autry's retirement as CEO of Meredith Corporation Magazine Group. Meredith publishes *Better Homes & Garden, Ladies' Home Journal,* and *Country Life,* among other titles. *Town and Country* Editor-in-Chief Pamela Fiori called *Love and Profit* "the most enlightening book about management written in the last twenty-five years."[3] *Love and Profit* is a book of poetry about business with inspired prose between poems.

How can a book of poetry be considered the "most enlightening book about management in the last twenty-five years?" Easy. Autry focuses on strategically crucial dimensions of human behavior that relatively few companies acknowledge in their policies and operations. Most business leaders think in terms of *numbers* and profit. *Love* and *profit* is an alien conjunction of words that is quantitatively murky. What is the payoff? Well, as that sage of sages Albert Einstein said, "Not everything that can be counted counts, and not everything that counts can be counted." It is attention to the *immeasurable* qualitative dimensions of life that gives FoE companies their crucial competitive differences from their competitors.

In his book *A Whole New Mind,* Daniel Pink in effect endorses Einstein's counsel on the limitations in measuring what counts. He posits that the survival of America's economic dominance depends on "… supplement(ing) well-developed high-tech abilities with abilities that are high concept and high touch"[4] (echoes of John Naisbitt's *Megatrends* from a quarter century ago). Pink elaborates:

> *High concept involves the ability to create artistic and emotional beauty, to detect patterns and opportunities, to craft a satisfying narrative, and to combine seemingly unrelated ideas into novel invention. High touch involves the ability to empathize, to understand the subtleties of human interaction, to find joy in one's self and to elicit it in others, and to stretch beyond the quotidian, in pursuit of purpose and meaning.*[5]

Pink's words capture the essence of the cultural foundations of FoE companies. However, the prevailing view still is that business survival is mostly a numbers game. According to Pink, however, we are in a new era in which company survival and growth will depend less on *quantitative* factors and more on *qualitative* factors. Perhaps the most powerful qualitative factor present in the culture of FoEs we have examined is love—*a deep, tender, ineffable feeling of affection*[6] that runs from company to stakeholder and back again to the company.

James Autry wrote in *Love and Profit,* "Good management is largely a matter of love." He elaborates:

> *Management is, in fact, a sacred trust in which the well-being of other people is put in your care during most of their working hours. It is a trust placed upon you first by those who put you in the job, but more important than that, it is a trust placed upon you* after you get the job *by those whom you are to manage.*[7]

Tim Sanders, formerly the Chief Solutions Officer of Yahoo!, sings from the same sheet of music in his book *Love is the Killer App: How to Win Business and Influence Friends:*

> *I don't think there is anything higher than Love … Love is so expansive. I had such a difficult time coming up with a definition for Love in my book, but the way I define Love is the selfless promotion of the growth of the other.*[8]

Kevin Roberts, CEO of one of the world's largest ad agencies, Saatchi & Saatchi, proposes in his book *Lovemarks: The Future Beyond Brands* that love should be the foundation of all marketing:

> *At Saatchi & Saatchi our pursuit of Love and what it could mean for business has been focused and intense. Human beings need Love. Without it they die. Love is about responding, about delicate, intuitive sensing. Love is always two-way. When it is not, it cannot live up to the name Love. Love cannot be commanded or demanded. It can only be given.*[9]

Copyrights. Trademarks. Servicemarks. Now Lovemarks, says Roberts. That's how the strongest brands will institutionalize their uncopyable distinction from competing brands. This is more than a sea change. It is a planetary change. A cosmic change. It is as far removed from marketing theory of the past as instant messaging is from Victorian-era letter writing.

The New Marketing Paradigm

We have left the twentieth century, but you wouldn't know it by looking at much of the marketing still being done seven years into the twenty-first century. Marketing remains heavily committed to a twentieth-century marketing paradigm based on the seduction, conquest, and manipulation of consumers. Reflect a moment on the title of an end-of-century marketing book on sales: *Triggers: 30 Sales Tools You Can Use to Control the Mind of Your Prospect to Motivate, Influence and Persuade* (Delstar Pub, 1999). *Triggers* continues to sell well nearly seven years after its initial publication. That seems to us a clear indication that legions of marketers and salespeople are still obsessed with figuring out how to control consumers' minds. The idea of collaborating with customers to meet their needs is foreign to them. Most sales training is still about seizing control of consumers' minds. Ever hear the term *market capture rate*? That's straight out of the twentieth-century marketing paradigm, which FoEs in this book rejected even before the twentieth century ended.

The main trait of the twentieth-century marketing paradigm was of hucksterism—aggressive promotion and selling that put sellers' objectives ahead of the *real* needs of consumers. The elements of snake oil salesmanship in this paradigm were never completely masked by Madison Avenue glamour, glimmer, and glitz. Sales quotas were used everywhere to keep pressure on managers, sales agents, and others to sell, sell, sell. Little thought was given to the fact that when job security is tied to quotas, ethics and moral principles are at greater risk. Consumers become prey. Marketers and salespeople become predators. We believe that this model of marketing and sales is headed for the dustbin of business history.

Yes, there will always be individuals and companies bent on exploiting customers, but we are talking about the dominant moral character of marketing in the future. Melinda Davis, CEO and lead seer of The Next Group, a futurist think tank in New York, offers a refreshingly new view of the marketing profession:

> *The possibility for real differentiation comes not in the product itself but in how you collaborate with the consumer's need to heal … This is the new imperative: The marketer must now be a healer.*[10]

Welcome to marketing in the Age of Transcendence. Like a velvety fog rolling in over the cold earth of a dying winter to signal the emerging warmth of a new spring, a culture of love and healing is spreading throughout the business landscape. It permeates workplaces everywhere, from executive suites to mailrooms. It laces the brain cells with a seductive disposition to reverse the tides of consumer exploitation that reached peak heights in the last quarter of the twentieth century. That was when companies gained an unprecedented information advantage over consumers. Companies used information technology to reduce us all to dehumanized data sets. We were variously labeled by such sterile terms as *seats, eyeballs, lives,* and faceless *end users.* We were reduced to stimulus-response mechanisms virtually devoid of volition by predictive modeling programs that supposedly knew us better than we knew ourselves.

Love is the antidote for this dehumanization. Sounds too New Agey, maybe? Pause for a moment and think. The former head of Meredith Publishing Magazine Group, the former chief solutions officer of Yahoo!, and the CEO of one of the world's largest advertising agencies talk about love in the marketplace without being concerned about raising eyebrows. Perhaps love has indeed established a secure beachhead in mainstream business thought. In any event, it is not possible to fully understand how FoEs outperform their closest competitors without understanding the role of love in their success. FoE executives lead with strong spines and dedicated resolve, but they retain their capacity to love and inspire love—in the workplace, in the marketplace, and across the full spectrum of their stakeholder groups.

Interestingly, participants in our seminars and workshops usually get the love idea quicker than they get the healer idea. “The marketer as healer? You’ve got to be kidding.” But we’re not kidding. Love and healing are inseparable, like gems and their facets.

New Balance is a loving FoE with a healing-based market strategy. This comes through strongly in its marketing communications. Given its history, it is not surprising that New Balance was an early practitioner of the ennobling idea that marketing should be about healing. From New Balance’s website:

> *The story of New Balance begins at the dawn of the 20th century (1906) in Boston, Massachusetts when William J. Riley, a 33-year-old English immigrant, committed himself to helping people with problem feet by making arch supports and prescription footwear to improve shoe fit.*
>
> *When Jim Davis bought the company … on the day of the Boston Marathon in 1972, he committed himself to uphold the company’s founding values of fit, performance, and manufacturing. When Anne Davis (Jim’s wife) began her journey with New Balance in 1978, her focus became building a superior culture for NB associates and those who do business with the company around the globe.*

Now you know why New Balance offers more shoe widths than other major sneaker companies.* Podiatric comfort and healing depend on the right fit. New Balance was founded on principles of healing that Jim Davis and his wife and business partner Anne continue to uphold a century after the company’s founding. Healing is in New Balance’s DNA. As society ages and podiatric problems become more common, New Balance is becoming even more dedicated to the healing model of marketing. The company recently launched a major effort aimed at raising awareness of its commitment to proper shape and fit among podiatrists and other professionals who minister to unhappy feet. However, it is not just through the functional attributes of its shoes that New Balance reveals it culture of healing. This is especially evident in its sensitivity to boomers in their midlife years.

* In a recent Chicago marathon, runners used 140 variations of size and width of the Model 991 running shoe.

Midlife is a time ripe for crisis, or at least new, unfamiliar challenges. Perennial midlife urgings to shift psychic energy away from *social actualization* toward *self-actualization* disturb the personal status quo. Social actualization is a developmental process concerned with gaining social acceptance, which facilitates vocational and material success. This requires us to subordinate part of our inner self to the demands and expectations of others in the outer world. However, this changes as we approach midlife. We begin to experience a need acknowledged by New Balance's slogan, "Connect With Yourself. Achieve New Balance." The gravitas of the process of shifting psychic energies more toward the inner self is reflected in words set down in *The Seasons of a Man's Life* by Daniel Levinson et al., whose research was the primary source of insights on midlife Gail Sheehy wrote about in her famous bestseller, *Passages.* Levinson's words:

> *In the Mid-life Transition, as a man reviews his life and considers how to give it greater meaning, he must come to terms in a new way with destruction and creation as fundamental aspects of his life. His growing recognition of his own mortality makes him more aware of destruction as a universal process. Knowing his own death is not far off, he is eager to affirm life for himself and for generations to come. He wants to be more creative. The creative impulse is not merely to "make" something. It is to bring something into being, to give birth, to generate life … Thus, both sides of the Destruction/Creation polarity are intensified in mid-life.*[11]

A commonly expressed midlife theme is "It's now my turn," or "My time," as Abigail Trafford says in her book *My Time: Making the Most of the Rest of Your Life* about how to "connect with yourself."[12] However, this is not "my time" in the sense of greater self-absorption, but rather in the sense that Levinson talks about when he describes the core developmental tasks of midlife and regards them as based on creativity as opposed to consumption.

In midlife, ancient catalysts of personality development in our genes nudge us toward ever higher levels of psychological maturation (provided we are beyond struggling to meet our basic survival, security, and social belonging needs). According to Maslow, this is when self-actualization, a developmental process that decreases the influence of the outside world on our worldviews and behavior, begins to emerge. We begin turning more attention toward the inner self. In Jungian terms, we begin dissolving the socially pretentious *persona*[*] that we needed during adolescence and the early-adult years.

From FoE New Balance's headquarters in Boston, not far from Abraham Maslow's Brandeis campus, Jim Davis has shown a remarkable intuitive understanding of self-actualization needs and the influence they have on people's behavior in the second half of life. His insights show up clearly in a comparison of values promoted by New Balance and Nike respectively in their marketing (see Figure 5-1). Note that the values promoted by Nike are perfectly legitimate and likely to be highly successful in a youth-dominated culture. The values promoted by New Balance, on the other hand, are increasingly well suited to a culture that is becoming dominated by the values of middle age.

Nike Values	**New Balance Values**
Winning	Improvement of self
Roar of the crowd	Inner harmony
Extreme effort	Balanced effort
The smell of sweat	The smell of nature
Physical development	Spiritual development
Nike appeals to the youthful masculine, narcissistic self.	**New Balance appeals to the feminine, others-centered experiential self.**

FIGURE 5-1 Comparison sampling of values (projected by Nike and New Balance)

In one New Balance ad, a man is running along a road carved into the side of a mountain overlooking a shimmering sea. The ad headline reads, "The shortest distance between two points is not the

[*] *Persona,* Latin for mask.

point." Nike might have run a visually similar ad but stressed superior performance and winning. With New Balance, it is a person challenging him- or herself, or man *with* nature—never *mano y mano,* as often seen or implied in Nike ads.

When we're scrappy youngsters or freshly minted adults hell-bent for big-time success, we spend much of our energy trying to get ahead of our competitors in love, work, and play. As midlife comes upon us, however, our very humanness inclines us to shift our energies into other pursuits. New Balance's marketing reflects this. Its ads have none of the machismo that generally underlies sneaker marketing. New Balance ads posit that one's worth is not measured by superiority over others, but by the measure of one's fidelity to one's *real* self.

Thus, when people begin wakening to the fact that they cannot run and play as hard as they once did; when they start wondering why "things" no longer satisfy the soul as they once did; when they begin to ask perennial midlife questions such as "Is this all there is?" and "What is the meaning of life—of *my* life?," New Balance is there with its comforting messages about self-discovery and new vistas.

A New Consciousness

It takes a different mindset than the one that produced the twentieth-century marketing paradigm of hucksterism to get in sync with the twenty-first-century marketing paradigm of healing. Recall the evergreen wisdom of Einstein about the importance of changing consciousness when old ways no longer work: A problem cannot be solved by the same consciousness in which it arose.

By nearly all accounts, marketing is sodden with problems. Abandoning old ways of thinking, whose rules you know, for new ways of thinking with rules you do not know is challenging. It is challenging intellectually, but also emotionally. Grief over the passing of "the good old days" and the stress of feeling lost in new mental territory unsettles the spirit. As a result, most people continue flailing away at a problem in the same consciousness in which it arose, doing the same thing over and over, expecting different results each time.

Haven't we all heard by now that doing the same thing over and over, expecting different results, is a definition of insanity?

The enviable success of FoEs flows from inspired leadership working from a different consciousness than that of their non-FoE competitors. Nike founder Phil Knight is an inspiring leader in his own right, but he operates from a very different consciousness than New Balance's Jim Davis. Nike views the sneaker market through the lens of competitiveness. Seeing markets through that view, it only makes sense to spend tens of millions of marketing dollars for iconic athletes to endorse products and tens of millions more publicizing those endorsements. Consider that Adidas signed up soccer star David Beckham for an estimated $160 million, the largest endorsement contract in history. Nike signed up basketball neophyte LeBron James for an estimated $90 million agreement in the biggest sneaker endorsement deal in history—after signing Tiger Woods on for another $100 million—the biggest golf endorsement deal in history.

New Balance views the sneaker market through the lens of a different consciousness. First, it sees itself as a sneaker-*making* company. Thirty percent of its inventory is manufactured at its own factories in the United States. Jim Davis views his closest competitors, including Nike of course, as sneaker-*marketing* companies. They don't make sneakers. They outsource all sneaker manufacturing. They just market what the Chinese, Indonesians, and others make (albeit from their designs).

The foundation of New Balance's marketing is fit and performance. But some people also buy New Balance sneakers because they want to acknowledge New Balance's resistance (to the extent it feasibly can) to outsourcing. We make no moral judgment on outsourcing, but bring attention to an increasing *meta* need of consumers to patronize companies and brands that share their values.

Styling, which is primary among New Balance's biggest competitors, is secondary at New Balance. Nike and others view customers primarily in terms of the social self (fitting in, impressing others, and competitiveness). New Balance views customers in terms of the inner self (life with balance and meaning). This view of customers does not depend on expensive endorsements and extensive advertising for expression. It leaves a lot of money for research and the care and feeding of retail partners (at which New Balance excels). In addition, it helps in covering the higher salary costs of manufacturing operations in the United States, although the superior productivity of New Balance's American employees goes far in accomplishing that.

"But how successful has New Balance been with its unconventional view of sneaker markets?" you might ask. Enormously successful. It rose from twelfth place in the sneaker category in 1990 to second place in 2004, prior to the Adidas-Reebok merger. It made these gains during a time when sneaker markets were becoming smaller as a result of shrinking youth and young-adult populations. During the 1990s, the 18- to 34-year-old population shrank by nearly 9 million potential sneaker wearers. In the U.S. market, Nike, Reebok, and Adidas experienced declines in sneaker sales as well as market share. During the same period, New Balance's sneaker sales and market share grew dramatically, with annual sales growth averaging around 25 percent between 1995 and 2003. Being an FoE has indeed paid off handsomely for New Balance.

Packaged goods giant Unilever is not an FoE. Nevertheless, the marketers of its Dove brand skincare products have also entered a new consciousness. They have done so in a radical departure from traditional marketing in the personal-care products category: Dove has embraced the idea of the marketer as healer. It has shifted from a consciousness that perceives beauty in idealized terms to a consciousness that sees beauty in real-life terms. This shift in consciousness was motivated by a survey that revealed that only 2 percent of women considered themselves beautiful. A meager 13 percent were "very satisfied" with their body weight, and only 13 percent were "very satisfied" with their beauty.

Dove's marketers saw this as signs of a previously unrecognized opportunity. They began thinking about the beginning of women's attitudes of physical inadequacy in adolescence. Low self-esteem and hang-ups that emerge from these attitudes in adolescence sentence countless girls to a life that fails to measure up to their potential. Therefore, Unilever established the Dove Self-Esteem Fund. The fund serves as an agent of change in young girls' attitudes about themselves. It inspires them with a wider definition of beauty than traditional marketing of personal products encompasses.

The vast majority of females—young, middle-aged, and old—do not identify with sensual depictions of youthful beauty in advertising. Dove marketers saw in this an opportunity. They launched a much-lauded global campaign to redefine beauty. A website devoted to "Real Beauty" was set up, offering "Inspiration from and for Real Women," and promising, "to help real women reveal their own real beauty with articles meant to inform, inspire and instill confidence in you." One Dove ad featured three older women with a crucial question adjacent to each picture:

- Gray or Gorgeous?
- Wrinkled or Wonderful?
- Flawed or Flawless?

The power of Dove's healing message draws from its empathetic connection with customers. "But does it sell soap?" one might ask. Yes. Resoundingly, yes. In Europe, where the campaign first broke, results surpassed all expectations. Dove Firming Lotion sales, for example, exceeded forecasts by 110 percent in Western Europe in 2004. In the United Kingdom, Dove Firming Lotion sales rose from 280,000 bottles in 2003 to 2.3 million bottles in the first six months of 2004.

Make no mistake about it: Healing, a distinguishing trait in FoE corporate culture, is replacing hucksterism as the soul of marketing.

The Unspoken Contract That FoEs Honor

In another career life, one of us (Wolfe) owned a company that managed communities with mandatory membership homeowner associations. One day a disturbing fact hit us between the eyes: Our most technically proficient community managers were not always as successful in getting management contracts renewed as managers with less-well-developed technical skills. We conducted a survey of association boards of directors in hopes of solving this mystery. The survey team came back with a startling insight: We had *two* contracts with every board—a *legal* contract and an *emotional* contract. The survey team told us, "You can be completely faithful to the legal contract, but it's not likely to be renewed if you haven't satisfied the emotional contract. On the other hand, if you satisfy the emotional contract, the boards will cut you some slack on the legal contract."

From customers and employees to suppliers, partners, shareholders, and the community, the full spectrum of a company's stakeholders is bound up with a company via these two contracts:

- **A legal contract** (mostly explicit) based on *quantitative* performance criteria established by jurisprudence as well as representations by a company and its agents in writing, oral communications, and actions.
- **An emotional contract** (mostly implicit or unspoken) based on *qualitative* performance criteria established by stakeholders in the form of expectations that reflect their moral and ethical values and their experiential desires—what they want to experience, and what they want to avoid experiencing.

MIT Sloan School of Management Professor Edgar H. Schein, writing about the explicit or legal contract and the implicit or emotional contract (which he called the "psychological contract"), suggested that unless the terms of the psychological contract are intuitively understood by all, long-term relationships are not possible, and friction is likely in the short term.[13]

Quite likely, one of the most common causes of corporate mortality is breaches of the emotional contract. When the emotional contract is egregiously breached, customers stop buying, worker productivity ebbs, suppliers become less responsive, partners bail out, shareholders put in sell orders, and community support evaporates.

Companies spend vast sums fortifying and defending themselves against legal challenges by various stakeholders, while apparently not realizing that the roots of a claim might lie in a breach of the emotional contract. People do not sue people or organizations for whom they feel affection—or as Kevin Roberts would say, "that they love."

Toro, the giant lawn mower and snow-blower maker, discovered that by delivering better on the emotional contract, it could decrease personal injury litigation. Toro's leadership once believed personal injury litigation was inevitable given the nature of its products. However, in the mid-1990s, it abandoned that belief. Company representatives began making personal contact with injured customers. They apologetically extended the company's sympathy and suggested that if an immediate settlement could not be arranged, arbitration might be better and less of a hassle than going to court. The $1.5 billion company used nonthreatening paralegals, experienced settlement counselors, and mediators familiar with Toro's preference for early case resolution. Since adopting this emotionally sensitive approach in 1994, Toro has not been in court for a single personal injury case. This is a truly amazing record for a company that builds dangerous equipment that falls into countless careless hands every weekend of the year. Toro says that by mid-2005, it will have saved an estimated $100 million in litigation costs since it kicked off its nonaggressive approach to avoiding litigation in 1991.[14]

Amul Dairy Products, one of the best-known brands in India, is a widely loved company that understands the unspoken contract it has with customers. Doctor Varghese Kurien, chairman of the National Cooperative Dairy Federation of India, observed at Amul's fiftieth anniversary celebration, "If Amul has become a successful brand … then it is because we have honored our contract with consumers for close to 50 years. If we had failed to do so, then Amul would have been consigned to the dustbin of history, along with thousands of other brands."

FoEs understand that their business operations are shaped by both spoken and unspoken contracts. Like partners in a successful marriage, they know that failure to honor the emotional contract with a customer means the end of customer loyalty.

It's Not News: Committed Employees Yield Committed Customers

Just about everyone in business seems to recognize the truth embodied in the title of this section. However, how many companies fully put that truth to work? FoE companies do. They know that good customer service begins with hiring people who have a high capacity for caring about their work and the customers they serve. They know that the work of immensely satisfied employees yields immensely satisfied customers. They take the long view that paying their employees higher wages and benefits than their competitors can reduce employee-associated costs. They also know that this long view leads to decreased marketing costs and higher sales per customer. All this may seem counterintuitive, but in case after case, FoEs with higher labor costs actually have lower labor costs per dollar of income as well as lower marketing costs. Seen through the lens of the proverbial bean counter's consciousness, it is not easy to see how higher wages and benefits can lead to such felicitous results.

The line-by-line way of looking at costs, treating each line item as an independent variable, inescapably obscures crucial connections between compensation and productivity, income, and profits.

Everything in business is of a piece. Companies are participants in economic ecosystems in which all participants are interrelated and interdependent. Actions in one group of participants can influence the well-being and behavior of participants in other groups. Given this, wages and benefits should be viewed in the context of the whole picture. Look at the issue this way: Low wages and meager benefits promote high employee turnover. This puts a damper on productivity and increases recruitment and training costs. Last but not least, it promotes higher customer turnover.[15]

Good to Great author Jim Collins deserves a great deal of credit for how his ideas have propelled the discussion about corporate greatness. However, the defining characteristics of the Age of Transcendence have altered the success equation that he posited. We observed in Chapter 2, "New Age, New Rules, New Capitalism," that Collins said that there are no specific "right" core values for becoming an enduring great company. However, three of the four companies he cited—Sony (whom Collins said had no "passion for its customers"), Disney (allegedly having no "respect for the individual"), and Ford (cited as having a poor record on "social responsibility")—have put in a poor 10-year financial performance, and the fourth, Wal-Mart (no concern for quality), has done poorly in equity markets over the past five years.

We believe that there *are* "right" core values. Every FoE we studied projects a passion for customers. Every one openly shows respect for individuals. All are concerned with quality. And not one is without a strong sense of social responsibility. We cannot imagine a different set of core values that would better serve a company in today's marketplace.

FoEs do subscribe to Collins's dictum about having "the right people on the right bus at the right time." We generally agree with Collins's ideas about needing to have the right people to create a great company; where we differ is in terms of the distinction between cause and effect. Our view is that if you create an FoE/SRM (*stakeholder relationship management*) business model, the "right" people will beat a path to your bus, reinforcing the FoE culture and leading to true greatness. Collins believes that there is one type of "right" person, and that is based on performance traits (that is, "A" players … the IQ side of the IQ/EQ equation). That is why strategy and culture are secondary in his model, and that is why we believe some of the companies cited in the book are facing difficulty today. We believe that there is a "right" person in terms of personality traits, but in terms of performance, it is different for different cultures/strategies (for example, foodies work at Whole Foods and gear-heads at Harley). For us, "greatness" starts with the commitment to an SRM model; after that, everything else that Collins says (right people, Level 5 leadership, and so forth) is beneficial for FoEs to know, learn, and do.

FoEs pointedly look for hires who have a genuine interest in and that are even a bit fanatical about the market focal point of the FoE's existence. For example, FoE Patagonia's market focal point is climbing enthusiasts. It wants employees who are passionate about "the dirtbag culture" of climbing. Commerce Bank's market focal point is giving customers "Wow!" experiences. Enthusiasm reaches almost cult proportions at Commerce Bank. "If you can't buy in, this isn't the place for you," founder and Chairman Vernon Hill warns those who just want to put in a day's work for a day's wages. LL Bean's market focus is the great outdoors, so it looks for employees who are zealous about the outdoors.

As mentioned previously, Whole Foods's business philosophy is summed up by its motto—"Whole Food, Whole People, Whole Planet." It does not want just warm bodies, but enthusiastic "foodies" who take life in with gusto in the spirit of the motto. They know that this enthusiasm will not only give customers an enjoyable shopping experience, but that it will also lead to more income per dollar of employee cost.

Employee enthusiasm is a big reason why Whole Foods and other FoEs outperform their competition. People patronize FoEs in part because of the fun they experience. One of us is a foodie who divides his shopping time between FoE Trader Joe's for basics and fun, FoE Whole Foods for health and fun, and FoE Wegmans Food Market for fun and … well, fun. Wegmans is a foodie's paradise.

Wal-Mart may be the biggest grocer in the world, but the history of FoEs in the grocery business over the past decade has shown that the 800-pound gorilla from Bentonville, Arkansas, can be gotten the better of. *Soul. Fun. Integrity. Love.* Those four words, put into action and underwritten by sound managment, are all it takes. Customers and employees will do the rest.

Earlier, we discussed the importance of *emotional intelligence* (EI) in employees and senior management. In addition to its benefits within the organization, EI is critical in dealings with customers. For example, consider the often-conflicting and ambiguous demands placed on professional salespeople. Salespeople are called on to simultaneously generate immediate profits through sales, build customer satisfaction, promote lifetime customer loyalty, and contribute to the long-term economic viability of the company. Research has shown that a salesperson's ability to perform well in juggling and delivering on all of these priorities is strongly related to his or her level of EI.[16] Our analysis suggests that FoEs are characterized by high levels of EI among all employees, and especially among employees who deal with customers on a regular basis.

How *Not* to Build Trust

Countless vision and mission statements cite building trust with customers as a primary objective. That puts a nonproductive spin on why a company is in business. Trust is not a primary business objective. It is more properly regarded as an outcome from meeting or exceeding stakeholders' expectations. In other words, trust is a measure of how well a company serves its customers, and in a broader sense, how well it serves all stakeholders.

Lee Surace, LL Bean's CFO, is not your garden-variety chief bean counter. He feels a deeply engrained sense of mission in his work, unrelated to dollars. He does not think about strategies for building trust. He thinks about strategies for helping all LL Bean stakeholders. He approaches his job with almost priestly humility and reverence:

> *For me, this business is not all about money. You have a sense that you are really improving people's life … When you become aware of the social responsibility that you have not only with your workers, but also with all your suppliers, vendors, customers, and your community, you realize that this business is not about how much money you are going to make as a company.*[17]

The culture defined nearly a century ago by passionate outdoorsman LL Bean, who was named by the *Wall Street Journal* as one of the Top Ten Entrepreneurs of the twentieth century, remains intact today. Unlimited guarantees are part of that culture. As one story has it, several years ago a customer returned a threadbare coat bought in the 1950s and received a new coat in exchange in fulfillment of LL Bean's guarantees without time limits. The $1.5 billion outdoor equipment and apparel company knows that its unlimited guarantees say to customers, "We trust you." Customers' respond, "We trust you, too," by giving the company their undivided loyalty.

Costco is another FoE that scores high in customers' trust. However, CEO Jim Sinegal does not spend much time thinking about building trust with customers. He is more devoted to maintaining consistency in expressing Costco's core values on a daily basis (core values listed in Chapter 8, "Society—The Ultimate Stakeholder").

Sinegal's passion for taking care of customers begins by limiting the markup of any branded product to 14 percent and to 15 percent on its Kirkland private label products. Not long ago, Costco's Kirkland brand 35mm film started flying off the shelves. The supplier kept lowering the wholesale price to Costco as sales continued rising.

This increased margins on the film above Costco's 15 percent limit. Concern arose in management that lowering the price to stay within the 15 percent margin limit could erode brand equity. The solution Costco adopted was lowering the price per roll, but adding more rolls to the pack to keep the package price about the same.

Much like LL Bean and some other FoEs, Costco customers have blanket permission for returns: no receipts; no questions; no time limits, except for computers, which have an unheard-of 6-month grace period. Costco trusts customers, and customers trust Costco. Trust is always strongest in relationships where it runs in both directions. Countless companies want customers to trust them, but they do not reciprocate. However, FoEs understand the payoff in nurturing and trusting customers. Yes, occasionally a customer will abuse the system, but FoEs will not compromise the benefits that flow to the many because of the sins of a few.

Costco's disposition to trust its stakeholders begins in its dealings with employees. Sinegal sets an example that makes it clear to employees that Costco executives are not in the game to take advantage of employees, customers, suppliers, and anyone else they can for personal gain. He demonstrates this by taking compensation that is pocket change in comparison with most other chief executives of large corporations. The average CEO of an S&P 500 company received $11.75 million in total compensation in 2005. Although Costco racked up an impressive (and profitable) $57 billion in revenues in 2005, Sinegal's total income that year was $550,000: $350,000 in salary and a $200,000 bonus.

Incidentally—or maybe not so incidentally—Sinegal goes against the tide by rejecting offshore outsourcing: "We could move [some operations] to Bangladesh or somewhere. But what kind of message would that send to our employees? Not a good one, I think."[18]

Sinegal is committed to the idea that it makes more business sense to make a nice profit, but not a killing, and to invest more in Costco's 92,000 workers. "I don't see what's wrong with an employee earning enough to be able to buy a house or having a health plan for the family," he says.[19]

FoEs Are Soulful

Harvey Hartman is into soul. Not soul music or soul food, but the soul of companies and their cultures. Most people believe the human soul is what most distinguishes humans from other animals. Hartman believes the corporate soul is what most distinguishes humanistic companies from others. Hartman is the founder and CEO of the Hartman Group, a market research firm in Belleview, Washington. He sees the issue of company soul as increasingly important to business survival and growth. "It's the result of our shifting from the industrial era Age of Reason to the postmodern Age of Soul," he says.

Asked what he means when calling a company "soulful," Hartman replied, "I mean a company that has an authentic product-origin narrative that champions nonmaterialistic attributes and moral values." That's another example of the Age of Transcendence *zeitgeist* driving the social transformation of capitalism.

A Hartman Group essay talking about the impact of this shift describes the Age of Reason as Hot and the Age of Soul as Cool.* Here is selected text from the essay, a colorful exposition on the differences between the twentieth-century marketing paradigm steeped in hucksterism and the twenty-first-century marketing paradigm rich in the philosophy of love and healing in the Age of Transcendence:

> *Hot is masculine, dogmatic, aggressive, analytical, dominating, high definition, formal, materialistic. Cool is feminine, seductive, integrative, informal, nurturing, interactive, spiritual.*
>
> *… Hot is a boss or a teacher who is in your face; Cool is a boss or teacher who mentors. Hot is Bobby Knight; Cool is Phil Jackson. Hot is something that seeks to dominate and overwhelm; Cool is seductive, inviting, intriguing; Hot thrives in the landscape of the Rational, which is clarity and control; Cool thrives in mystery, darkness, and discovery, which is the landscape of Soul. The rational style is abstract, homogeneous, regimented, predictable, quantitative. The soul style is human, quirky, humorous, engaging, qualitative.*

* The full essay—well worth reading—can be read at www.hartman-group.com/products/natsens/issueII-08.html.

> *… We're moving toward the Soul Age, and we are convinced this is not merely a superficial, trendy phenomenon; although, as with any major cultural shift, it has its superficial, trendy effects.*
>
> *… So what does this mean for retail? We're already seeing it everywhere; it means that the future lies in cooling things down.*
>
> *A hot retail style is one that focuses on serving customers who already know what they want and are mostly interested in price and convenience. It's a style that supports consumers who want to get in and get out, and there will always be a need for stores to provide that service. But e-commerce is going to soak up a lot of that market …*
>
> *… The rational style looks at consumers as abstract statistical data, random consumer atoms that bounce in and around and out the store; the soul style wants to develop relationships …*
>
> *… The difference between hot and cool styles helps us to understand the success of stores like Restoration Hardware, Starbucks, IKEA, Pottery Barn, Trader Joe's—all of which are chains that have developed a cooler, more soul-oriented style. These stores, each in their own way, are destination shopping experiences because they are seductive and inviting. People go there because they are interesting, attractive, different, sometimes funky, and places where they can interact with others—whether knowledgeable store personnel or other kindred spirit-customers.*

The Hartman Group's research has led it to the conclusion that Wal-Mart could face problems in the long run if it does not become a more soulful company. "People's emotional attachment to Wal-Mart is astonishingly low," says Hartman.

People do not go to Wal-Mart for soulful experiences. However, they do go to Whole Foods with that in mind. They also go in battalion-sized mobs to the service rich, family-owned Wegmans Food Markets for soulful experiences. They shop at Jordan's Furniture (now owned by Warren Buffet's Berkshire-Hathaway, Inc.) with its shoppertainment bonanza for a fun-filled soulful experience. People go out of their way to catch a flight on Southwest, the jester FoE airline with a perpetual smile on its face that takes some of the pain out of flying—a definite soulful experience.

Soulfulness is a hallmark of FoE companies. It is a distinctive component of culture in the Age of Transcendence that is reflected by an upsurge of interest in spirituality—in turn, a reflection of the aging of society. Aspirations for more soulful experiences in daily life are reducing the materialistic flavor of society. Consumers are looking more and more beyond the raw functional character of products and services for experiences that enhance life satisfaction. Joe Pine and Jim Gilmore richly evidenced this in their business bestseller *The Experience Economy.*

Sure, "value" retailers such as Wal-Mart will continue drawing in people for whom price is the primary criteria in choosing where to shop. But in the Age of Transcendence—similar to Hartman's Age of Soul, and Dan Pink's Conceptual Age—price is not the primary criteria in shopping decisions for a growing slice of the consumer population market pie. By now, most people who know about Whole Foods have probably heard the tongue-in-cheek *faux* plaint that Whole Foods is "Whole Check." However, people shop there anyway. They accept as matter of fact that it costs more to produce foods organically and more to produce meats and dairy products from free-range animals. So, Whole Foods shoppers gladly pay $3.49 a dozen for large grade A eggs laid by free-range chickens even though they can get "normal" eggs at Safeway for $1.19 a dozen.

So "high price, high soul" is indeed a feasible business strategy. But is "low price, high soul" as feasible?

To answer that question, let's revisit Costco's Jim Sinegal. First, the CEO who works by a business model based on a low-price, high-soul formula may have to occasionally turn a deaf ear and blind eye toward Wall Street. Sinegal has endured shrill criticism for giving customers too much in price breaks and employees too much in pay and benefits. You will recall from an earlier chapter that Deutsche Bank analyst Bill Dreher complained that "it's better to be an employee or a customer (of Costco) than a shareholder,"[20] notwithstanding the fact that Wal-Mart's stock fell 5 percent in the year Dreher issued that judgment whereas Costco's stock price rose 10 percent.

Sanford C. Bernstein & Company analyst Emme Kozloff has also criticized Sinegal for being too generous to employees. Costco's wages average 40 percent higher than the wages of Wal-Mart's Sam's Club employees. She said, "He (Sinegal) has been too benevolent. He's right that a happy employee is a productive long-term employee, but he could force employees to pick up a little more of the burden."[21] What a Scroogish idea. Notice her use of the word *force.* It is a term from the old command-and-control vocabulary that is anachronistic in the Age of Transcendence. FoE leadership eschews *force* in favor of *influence* accomplished through servant leadership.

Analysts such as Dreher and Kozloff do not seem to understand the Costco business model, which differs from that of Sam's Club, its primary competitor. Sam's Club is a theme-and-variation expression of the basic Wal-Mart model. Logistics management—the best in the business of retailing—drives the Wal-Mart business model. The Costco model is driven by tenets of human behavior, expressed by employees, customers, suppliers, and other stakeholders. It is easier for Wall Street analysts to understand a numbers-based business model than one that depends on tenets of behavioral science.

Wal-Mart's brilliantly executed supply-chain activities enable it to generally beat the rest of the retail world in pricing. However, it has opened up the firm to increasingly intense criticism for its view of frontline workers as expendable, easily replaceable cogs in the Wal-Mart everyday low-price machine. This calls to mind Charlie Chaplin's 1936 film *Modern Times,* which railed against "man as machine" in modern corporations. Principles of human behavior at the worker bee level are an irrelevancy under such conditions, which reduce workers to being little more than expendable instruments for increasing shareholder wealth.

It's difficult to persuasively argue against the fact that in terms of wealth creation for shareholders, the Wal-Mart business model was for a time one of the most successful one around. Yet today, more and more people are asking, "But at what price to society, communities, families, and individuals?" To that we add another question: Will Wal-Mart's business model someday be as obsolete as the ones it displaced to become the world's largest retailer? Perhaps an ad that Wal-Mart ran on its website in early 2006 is a harbinger of the future. The ad announced that the company was looking for "(a)n innovative, out-of-the-box thinker" to "help pioneer a new model of how Wal-Mart works with outside stakeholders, resulting in fundamental changes in how the company does business."

Those words are quite specific about Wal-Mart's claims that it wants to change its current business model. The ad went on to say that the new hire "will play a critical role in helping the company … create a new model of business engagement that uses market-based changes to create societal value." Could Wal-Mart be taking the first steps toward becoming an FoE?

Despite the awesome power of Wal-Mart's current business model, Costco has been astonishingly successful in competing with Wal-Mart's Sam's Club. Its "secret" defense against the Wal-Mart/Sam's Club juggernaut is its more soulful business model that projects stronger sensitivity to human behavioral considerations, especially in the ranks of employees. This has paid off in significantly higher productivity per employee than Sam's Club experiences. It also translates into higher customer satisfaction scores and increased income per employee. It also keeps customer retention significantly higher than at Sam's Club. Costco's customer satisfaction rating in 2004 according to the American Customer Satisfaction Index was 79 points in a 100-point system. Very few companies across all industries earn a rating higher than 80 points. The average among all companies is 73 points. Sam's Club was indexed at 75 points and Wal-Mart at 73 points in 2004. However, in the grocery category, Wal-Mart was pegged below average at a meager 70 points. Only Albertson's among major grocers was below Wal-Mart's score with 69 points.

Costco's business model guides an operation that averages $121 million per store, significantly higher than Sam's club average of $70 million.[22] It is sad for everyone that many investment analysts simply do not understand the Costco business model. They do not realize that changing the Costco model to look more like Wal-Mart's mechanistic model would be the worst decision possible from a shareholder's perspective. It is doubtful that Costco could beat Wal-Mart at the game the retail behemoth has supremely mastered. So, Costco survives and prospers using a different business model, one that inspires feelings of love among its customers as well as among employees and other stakeholders—love, the ineffable feeling of affection that bonds us to another being, and in the marketplace, to brands, companies, and employees of the companies we love. We readily talk about the value of a company's intellectual property; why not take its emotional property into account when assessing its investment value?

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