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Profitable Management of Customer Expectations in a Hyper-competitive World

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Abstract

Managing customer expectations is an indispensable target for business firms in any industry in an era of hyper-competition. Even a great product may fizzle out at the market place, if there is a mismatch between what is promised and what is delivered. This does not however mean that firms can afford to go to any extent to please the customers. So, the whole task becomes tricky particularly when customers tend to be fastidious and competitors tend to go overboard to please the customers. Moreover, customer expectations change over time and firms need to take a call as to which promise-delivery mechanisms would suit them best given the ever-changing spatio-temporal dynamics in the competitive landscape. The study compares and contrasts all possible combinations in this regard with due simplification and exemplification of various possible nuances in this connection. Limitations of the study are indicated along with pointers to future research.

Keywords: underpromise, overpromise, underdeliver, overdeliver, customer expectations

1. Introduction

This paper aims at synthesizing and streamlining related strands of literature by providing a snapshot of various possibilities that constitute the truth table in terms of setting customer expectations via a firm's Customer Value Proposition (CVP) and delivering the same (Anderson, Narus and van Rossum, 2006). While exact delivery of what was promised earlier looks like a great achievement on its own, there are many real-time occasions during which manipulating the promise towards generating pleasant surprises to customers seems to make more pragmatic sense than otherwise. The traditional literature speaks about the merits of 'underpromise but overdeliver' as a strategic recipe for managing customer expectations very well (Revella, 2015). Firms like Amazon purposefully promise a later date of delivery at the time of issuing the invoice online, actually delivers much before the promised date of delivery. Such cases clearly fall under the category of 'underpromise but overdeliver'. It is also obvious that a strategy like 'overpromise yet underdeliver' is a sure recipe for disaster. There have been few researchers who contend that 'overpromise and overdeliver' as a far better recipe for greater success at the market place (Barrera, 2005). However, the existing literature is silent on various other recipes of success such as 'underpromise and underdeliver'. The extant literature is equally silent on the prospect of failure from an otherwise plausibly good strategic recipe viz., 'promise and just deliver what was promised' apart from 'overpromise and overdeliver'. This paper endeavours to plug these research gaps by virtue of several real time case studies that substantiate such possibilities. Limitations of the study along with pointers to future research are indicated.

2. Literature Review

Notwithstanding the studies till date on the management of customer expectations, the literature is scant on multiple fronts in the form of comprehensively synthesizing various possibilities in the truth table comprising of various combinations of 'underpromise and underdeliver', 'underpromise and overdeliver' and 'overpromise and overdeliver'. This study strives to accomplish such a holistic objective and thereby plug

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the respective research gaps. Profitable management of customer expectations forms the crux of this paper as it points out various failure stories of firms like Novelis that ‘overpromised and overdelivered’ and thereafter became an easy target for acquisition by Hindalco. Such case studies serve as counter-examples to an otherwise successful recipe like ‘overpromise and overdeliver’. In fact, such cases provide their own nuances and caveats for firms to take note of whenever they emulate other firms for greater probability of success in their respective businesses.

3. Research Methodology

The study adopts a theoretical discussion of relevant cases of success and failure with the central theme of profitably managing customer expectations. This task is carried out after setting the context for subsequent linking of the related concepts with the business outcomes in terms of success and failure. There is a widespread notion that ‘underpromise’ amounts to some kind of demarketing. However, the live example of electric vehicle (EV) firms in the last century, though with hindsight, brings new insights about a successful recipe ‘underpromise and underdeliver’. While the EVs in the yester-century were inferior to the gasoline-driven cars on various price-performance fronts, they still made sense to commuters, hospitals and campuses for internal transportation purposes. Such customers count on their own internal charging points and would not expect a charging station network on the lines of petrol stations because they either operate in closed premises or with restricted and well-planned short distances upto 40 kilometres or so and this can be easily accomplished on one charge. Notwithstanding their relatively poor performance in the regular long-driving and possibly high-speed oriented consumer markets, they still made sense to other unconventional market segments comprising of commuters, hospitals, university campuses, railway stations and the like. Had the EV firms adopted the strategy of ‘underpromise and underdeliver’, they could have had their share of success in these alternative non-traditional markets as against the traditional markets where long distance travel and speed matter the most. Similar was the case with ‘Chotukool’ from Godrej. Such an unconventional and portable cooling solution was inferior to a traditional refrigerator on multiple fronts. Yet it appeals to rural and office customers who need a ‘good enough’ portable cooling solution that can run on a battery as well. From these cases, one can notice that ‘underpromise’ actually refers to setting the right expectations and preparing the respective customers to comfortably embrace the ‘good enough’ solutions where price-performance criteria are different right from the beginning itself.

There is yet another popular notion that ‘overdeliver’ amounts to some kind of loss-making activity. However, this need not be true always though sometimes it may entail loss-making. In the case of Novelis, it overpromised and overdelivered to beverage-making customers who purchased aluminium cans from Novelis. There was a time when Novelis (over)promised that it would not increase the price of its aluminium cans even if the prices of the raw material viz., aluminium go up and this agreement was for a four year period. An otherwise well-performing company became financially vulnerable due to this unsustainably infeasible business model in the later years and because of which got acquired by Hindalco. This is a solid example of a company going to dogs because of its ‘overpromise and overdeliver’ strategy. There are other cases like internet fridge of LGE and Amazon’s ‘Fire’ smartphone that overpromised and overdelivered yet ended up as commercial failures in view of some expensive features which were not required and hence not appreciated by the customers who eventually were unsatisfied with the exorbitant prices of these products because of their cost going into the prices. On the other hand, examples like NABI prove the utility of ‘overpromise and overdeliver’ whereby they make profits while meeting or even surpassing the expectations of their customers (Kim and Maubogrne, 2005).

4. Conclusion

For profitable management of customer expectations and thereby commercial success at the market place, firms need to ensure that the value delivered is at least equal to the value promised (Copeland and Dolgoff, 2005). Some firms may go beyond this minimal requirement by delivering greater value than the value promised initially towards generating a pleasant surprise to the customers. This can be in the form of surplus features or lagniappes or free installation or any of such value additions not promised initially. As long as this is done, it does not matter as to which of the various strategies viz., ‘underpromise and underdeliver' or 'overpromise and overdeliver' or 'underpromise and overdeliver' or just 'promise and deliver' is adopted by firms. However, the spatio-temporal dynamics of the competitive landscape can influence the customer expectations and hence the strategies of firms towards selling their products and their incremental innovations. For example, what may look like a surplus desirable feature today may be seen as a mandatory default feature tomorrow by the very same customers. Similar could be the case in different market geographies (e.g., developed economies and emerging economies) comprising of customers with different expectations. Naturally, customer expectations evolve over time and space and the competitive dynamics in the respective industry tend to augment these expectations. When we take these spatio-temporal dynamics into account, we may conclude that eventually 'overpromise and overdeliver' strategy could be the best possible alternative for firms in their journey of profitable growth across space and time. However, few caveats indicated in the discussion warrant the attention of firms. The price-performance criteria vary from one market to another and accordingly the customer value proposition can vary from one market segment to another (Barnes, Blake and Pinder, 2009). Any comparison between two CVPs within one industry may make sense but any such comparison across two different industries would tantamount to comparing apples with oranges. As long as firms adopt a contextualized and industry-specific strategic variant of various promise-delivery mechanisms, they can be optimistic about their profitable growth prospects in their businesses via profitable management of customer expectations. Future studies may incorporate the evolution of customer expectations over time and the concomitant co-evolution of firms' promise-deliver mechanisms in the form of longitudinal research studies.

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