

# Applying the Science of Trust in Customer Success Management

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Conventional wisdom in Customer Success Management says that teams should focus on user adoption. The common belief is that the more customers use software, the more they obtain value from it, and less likely they are to churn. It makes sense, and there's evidence to support the assertion.<sup>1</sup> However, scientists say that when it comes to retention, there's much more to consider. Multiple factors impact loyalty, including the level of trust customers have in the provider.

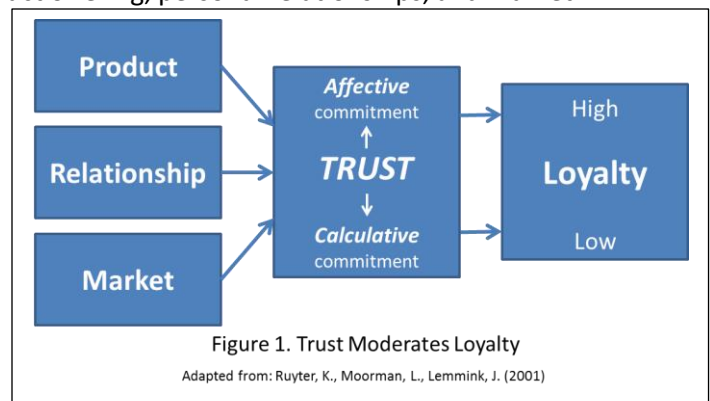
This white paper delves deeply into how people learn to trust by examining the underlying phenomena influencing loyalty. It then identifies five critical moments in the customer experience that contribute to trusting relationships. It concludes by showing a more *mindful* customer experience leads to stronger relationships and greater customer loyalty.

## Trust drives loyalty

Research shows loyalty comprises three main factors:<sup>2</sup>

- *Quality and value of the product or service.* Satisfied customers aren't always loyal, but loyal customers are almost always satisfied. The product offering must have intrinsic value and customers must perceive it.
- *Market dynamics.* The cost and risk of switching is a major factor. When there are no or few good options, customers are stuck. They are loyal simply because they have no other choice.
- *Relationship.* Strength of attachment between customer and supplier matters. Preference or ambivalence influences repurchase decisions.

Evidence suggests trust also influences loyalty, especially in markets like high technology where customers perceive substantial buying risk.<sup>3</sup> The product offering, personal relationships, and market factors become building blocks, but levels of trust ultimately determine loyalty as shown in Figure 1. When trust is high, extending the subscription contract is a no-brainer. Scientists call this *affective commitment*—people prefer to do business with people they know, like and trust. When trust is low, however, customers revert to *calculative commitment*. Decision makers use formal methods such as RFP's and selection matrices to evaluate their options. As a result, customers are less likely to renew their agreements.



<sup>1</sup> Shanahan, M. The data behind adoption and retention in the customer journey. Scout by ServiceSource, <http://research.scoutanalytics.com/churn/the-data-behind-adoption-and-retention-in-the-customer-journey/>. Accessed 3/12/15

<sup>2</sup> Gremlera, D. and Brown, S. (1996) Service loyalty: its nature, importance, and implications. University of Idaho and Arizona State University, USA

<sup>3</sup> Ruyter, K., Moorman, L., and Lemmink, J. (2001) Antecedents of commitment and trust in customer-supplier relationships in high technology markets. *Industrial Marketing Management* 30, 271–286

Research has also shown that trust protects against churn.<sup>4</sup> Studies indicate customers who have many months of positive experiences from the outset weigh cumulative satisfaction more heavily than occasional, negative experiences that occur later. If a new software release has more bugs than usual, for example, high trust makes people more forgiving.

## Trust factors

Humans are naturally suspicious. From an evolutionary perspective it is safer to be wary of another's intentions. In today's society, natural predisposition influences how customers deal with unknown brands. People must become confident in their appraisals before they place trust in a person, company, or technology.

The attributes scientists most often associate with trust are:

- *Ability*. Competence, predictability and consistency in behavior
- *Benevolence*. Caring, goodwill, empathy and commitment to shared goals
- *Integrity*. Fairness, objectivity, honesty and open communication

Trust must be earned by the supplier's entire organization, and not just frontline employees. For example, if Development produces defective software, customers lose confidence. If Support is rude or unresponsive, customers sense that the company doesn't care. If Legal defines onerous terms and conditions, customers hesitate to commit. Company behaviors characterized by poor performance, indifference and secrecy result in a bad reputation, one that can't be overcome easily by the Customer Success team. Senior leaders must value their customers' trust and ensure that their organizations continually earn it.

## Learning to trust

Neuroscientists have discovered that people learn to trust in much the same way they come to speak a new language, hit a fastball, or use a new software application.<sup>5</sup> Learning occurs when neurons fire in the brain repeatedly, causing chemical changes in synapses. Through the process of reinforcement, millions of neurons encode new information. Complex neural associations then enable the brain to represent concepts, assign value, make decisions, carry out actions, and evaluate experiences.

In humans, as in all animals, some behaviors are more beneficial than others. It's therefore advantageous for animals to learn which actions to repeat and which to avoid. To this end, the brain uses *dopamine*, a powerful neurotransmitter, to train neurons. In small doses, dopamine causes people to feel happy, but when delivery is restricted, the brain experiences pain. Because the brain craves it, dopamine is ideal for doling out rewards and punishment.

After every learning experience, the subconscious compares two values: how rewarding something was versus how rewarding it was expected to be.<sup>6</sup> The brain then bursts dopamine if rewards exceed expectations, and limits it when the opposite occurs. In this manner, the brain trains itself to pursue pleasurable situations and avoid painful ones.

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<sup>4</sup> Bolton, R. (1998) A dynamic model of the duration of the customers' relationship with a continuous service provider: the role of satisfaction." *Marketing Science*, Volume 17, No. 1.

<sup>5</sup> Chang, L., et al (2010) Seeing is believing: trustworthiness as a dynamic belief. *Cognitive Psychology* 61 pp. 87–105

<sup>6</sup> Caplin, A. and Dean, M. (2008) Dopamine, reward and prediction error, and economics. *Q. J. Economics*, 123 (2), 663-701

Dopamine is highly addictive, so the brain must be careful about regulating the amount. As shown in Figure 2, after each learning experience the brain adjusts its expectations such that the *reward prediction error (RPE)* gets progressively smaller. When expectations and rewards are about equal, neural repetitions cease and the learning process concludes.

An experiment called *The Trust Game* reveals the trust learning process clearly. The object of the game is to make the most money. Players are given funds and instructed to either invest them alone using a slot machine or

cooperatively through interaction with other players. Cooperation pays back more than playing alone (typically three or four times as much), but payback depends on how the other person behaves. The partner can choose repay the investor's trust by returning more money than was initially invested, or abuse their trust by keeping all (or most) of the money.

Figure 3 shows the game in action.<sup>7</sup> Experimenters tested three variables:

- *Probability of payback.* See this in the black "High Prob." lines and "Low Prob." gray lines in the figure.
- *Playing alone.* See solid lines labeled "Slot" representing the "slot machine" cases.
- *Initial perception of trust.* See hashed "High Trust" line vs. dotted "Low Trust" line.

The chart shows average investment amount on the y-axis and game trials, or investment repetitions, on the x-axis. Experimenters rigged the game for certain arrangements to pay off either 80% or 20% of the time. Players quickly determined which strategies succeeded, evidenced by the upward trending of the black lines and the downward trending of the gray lines. One can also see that players tended to invest more money with others when payback was higher and slightly more by themselves when payback was lower. By the fifteenth trial, average investment values stabilized for each of the test cases—meaning experience taught players the optimum amounts to invest given the various behaviors they observed in others.

### Trust phenomena apparent

Learning theory suggests that by the end of the game, expectations had become higher for the high probability cases and lower for the low probability cases. The tendency to remain at these levels is called *expectation latency* and it influences future behaviors.

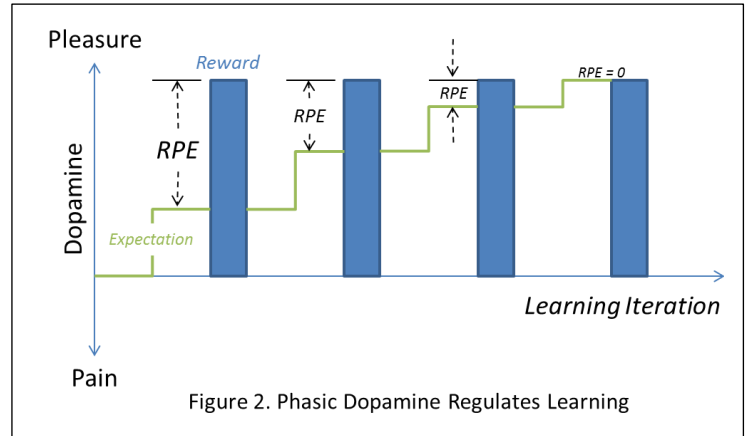


Figure 2. Phasic Dopamine Regulates Learning

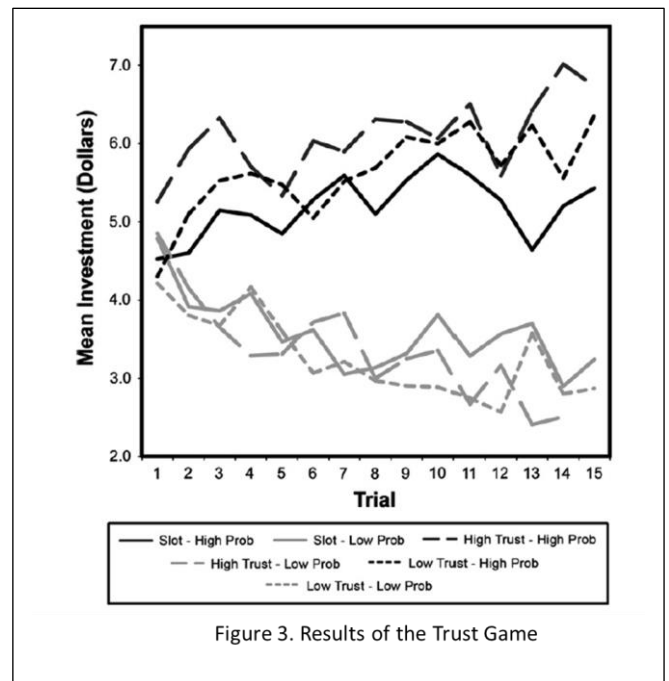


Figure 3. Results of the Trust Game

<sup>7</sup> Chang, et al. (2010)

According to economic prospect theory, people are far more sensitive to losses than they are to gains.<sup>8</sup> They feel the pain of unmet expectations more acutely than the pleasure they would have experienced had they been exceeded. When there's nothing to lose, expectations are low and people are more inclined to take risks by switching providers. Conversely, when expectations are high, as in when customers have experienced a trusting relationship, they are far less likely to switch providers for fear that the new supplier won't measure up.

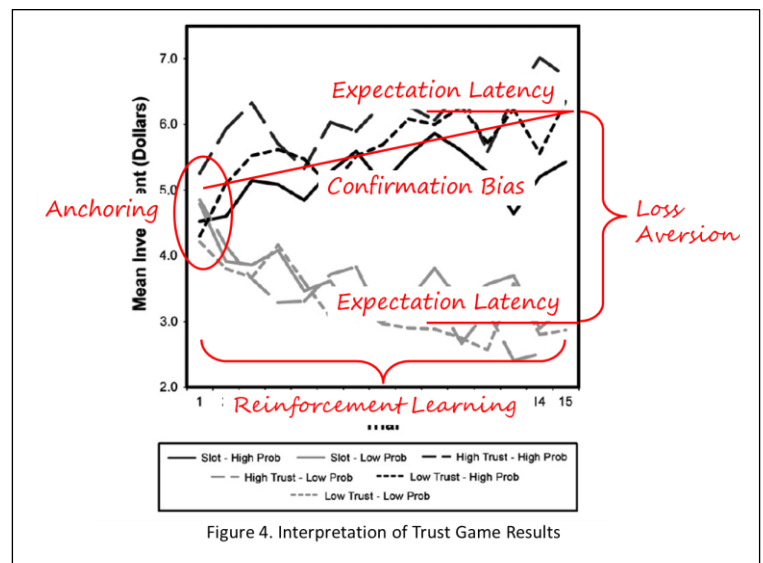
Considering this on a subconscious level, anticipation of the cognitive pain from missed expectations and the resulting dopamine deficiency becomes strong motivation for the brain to protect the status quo. This is where *loss aversion* comes into play. The subconscious mind that has a trusting relationship makes the decision automatically, triggering the affective commitment behaviors observed in loyalty research. In effect, loyalty is about encouraging the accumulation of dopamine in customers' brains, so that they're hesitant to experience the pain of withdrawal.

Notice in Figure 3 what happens in the beginning of the trusting relationship matters just as much as the end. In the very first trial of the trust game, there was significant variation, ranging from \$4.25 for the "Low Trust-Low Prob." case to \$5.25 for the "High Trust-High Prob." case. This occurred because researchers deliberately biased player behavior; they suggested that some players were more trustworthy than others. To do this, scientists displayed two different photographs: one an attractive, smiling face and another less attractive, angry face. The players automatically associated the friendly faces with trustworthiness and the unfriendly faces with suspicion, exhibiting a subconscious attribution error all humans make. This reflexive *anchoring* established a belief that immediately impacted trust behaviors.

Notice also that the "High Trust-High Prob." and "Low Trust-High Prob." lines converge only after the twelfth trial. Even though the behaviors of the partners were exactly the same, players stuck with their initial trust perceptions for quite some time until they finally realized there was no difference. This is strong evidence of *confirmation bias*—the tendency for humans to notice information that supports their beliefs and ignore information that contradicts them.

Figure 4 summarizes the important lessons about trust and loyalty from cognitive neuroscience:

- *Reinforcement learning*. People formulate expectations about trust through a series of experiences.
- *Expectation latency*. Once established, beliefs stick.
- *Loss aversion*. The risk of not meeting expectations (and the cognitive duress that comes with it) incentivizes people to keep things the way they are.
- *Anchoring*. People are highly susceptible to suggestion in novel situations.
- *Confirmation bias*. First impressions tend to linger.



<sup>8</sup> Kahneman, D., and Tversky, A. (1979). Prospect theory: an analysis of decision under risk. *Econometrica*, 4, 263-291

What this indicates to Customer Success leaders is that the early stages of the customer relationship are critical, perhaps more than most think. Customers must not only learn to use their new software products, they must also learn to trust the firms behind them. If companies wait passively until customers formulate their own opinions about their trustworthiness, they put customer retention at risk downstream.

## Minding the journey

If dopamine from a series of rewards is what fundamentally drives trust and loyalty, then a more *mindful* approach to the customer experience is required for success. Mindfulness is the quality or state of being conscious or aware of something. It implies organizations must be cognizant of how their own behaviors affect human decision making, learning, emotions, subconscious processes, and social signaling. When companies implement steps that harmonize human cognition and influence customer decisions in their day-to-day activities, they create ideal conditions for strong, trusting bonds to form.

Customers may interact hundreds times with cloud computing companies during their subscription periods. Most interactions are mundane, but five particular types help build customer trust the most, especially in the beginning of the relationship:

Five Critical Moments in the Customer Experience	
<b>Connection</b>	Build relationships through commonality
<b>Power</b>	Increase autonomy, mastery and choice
<b>Proof</b>	Show that you keep your promises
<b>“Wow!”</b>	Surprise and delight
<b>Truth</b>	Show character when the chips are down

Customer Success executives can easily incorporate these Five Critical Moments into their operations using an innovative technique. Unlike typical customer journey mapping approaches, Mindful Customer Experience Design adds a new twist. In addition to uncovering disconnects or points of friction that frustrate customers, teams analyze and improve interactions that systematically build relationships. Armed with a greater understanding of how the human brain works, teams apply scientific principles to enhance customer bonding at every step.

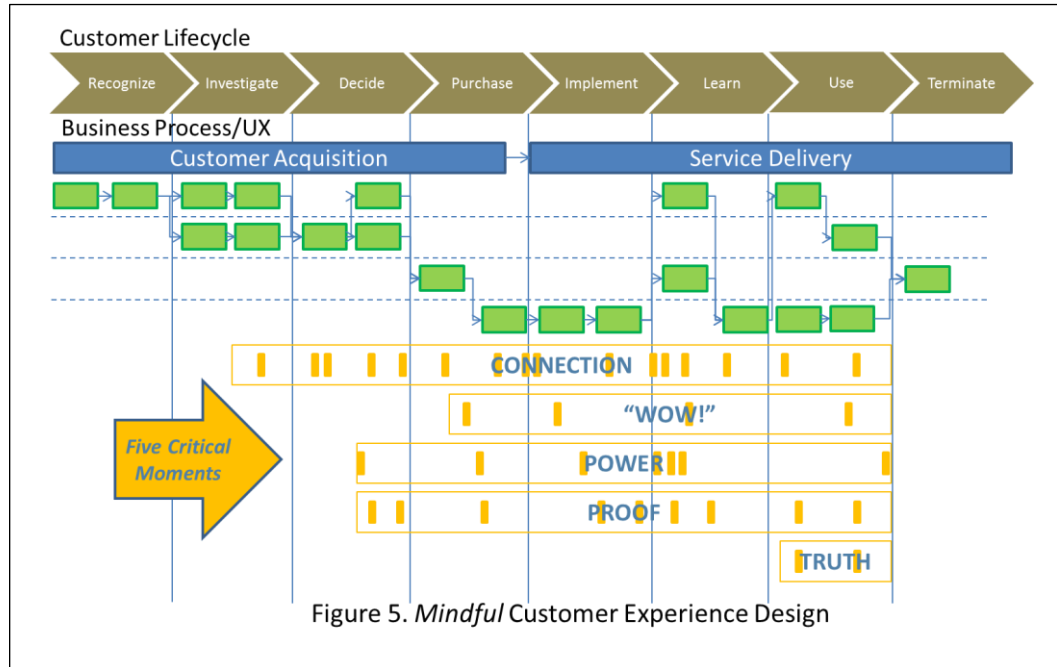
Mindful Customer Experience Design begins by defining the customer lifecycle. Next, teams establish *effective* requirements for each phase by postulating what customers are trying to accomplish. Then participants outline customers’ *affective* requirements, examining context and cognitive state using the Five Critical Moments. Gaps and opportunities for improvement become apparent. The team then prioritizes the issues and launches process improvement projects to modify both human and machine-enabled interactions. As a result, the company creates a new level of customer warmth and attachment that builds loyalty.

Examples of the simple, scalable process changes teams implement during the design process include:

- *Moments of Connection.* Take time to connect personally and professionally with customers during onboarding calls before training them on how to use the software. Structure communication cadence to deliver more contact earlier in the relationship. Use online communities to build connections between customers both for support and learning applications.

- *Moments of Power.* Use reinforcement techniques during onboarding calls to quickly build skills using software. Quiz customers on how to do things using communities and e-mail polls. Give customers feedback on their skill development progress using in-product communication tools. Allow customers choices on how to buy renewals and deploy new services.
- *Moments of Proof.* Deploy and track online implementation timeline and cost estimates. Demonstrate initial results from software through analytics. Conduct Quarterly Business Reviews (QBRs) to show progress meeting the customer’s business goals. Develop in-product messaging to remind customers of the benefits from ongoing use.
- *Moments of “Wow!”* Go the extra mile during customer support calls to do a performance “tune up” on system configurations. Send handwritten “thank you” notes to customers. Learn a customer’s favorite sports team and send a congratulatory e-mail when they win the championship. Deploy “Easter egg” features in the product, hiding them and rewarding customers with a video or song that plays when they discover them.
- *Moments of Truth.* Soothe frustrated customers by apologizing and acknowledging their emotional states before attempting to solve their problems. Use formal service recovery methods and communicate status updates from the CEO when system-wide outages occur. Trigger calls from senior executives to personally follow up when key customers give an unusually low rating on a satisfaction survey.

As shown in Figure 5, when managers use Mindful Customer Experience Design techniques to systematically incorporate and manage the Five Critical Moments, the firm dramatically strengthens customer trust, leading to greater retention and more revenue from the installed base.



## Conclusion

In the subscription economy, cloud computing companies rely on customer loyalty for their very existence. Despite this dependency, many companies overlook the critical importance of systematically

building customer loyalty from the outset. Executives must obviously do the basics by creating a valuable product and delivering on the promises they make. But to achieve world-class loyalty, companies must also build relationships. The science indicates that numerous psychological phenomena combine to form an impression of trustworthiness, and Customer Success teams have a narrow window to influence outcomes. A more *mindful* approach creates an optimal service experience and the opportunity to strengthen those bonds.

### **About Service Excellence Partners**

We help increase customer loyalty and business performance in the cloud computing industry. Specializing in reducing customer churn, we help clients diagnose root causes across the enterprise and then help systematically improve products, processes, customer experiences and management systems. Our innovative *Mindful* Customer Experience Design approach incorporates the latest advances in social cognitive neuroscience to help cloud computing companies effectively build customer trust and loyalty at scale. To learn more, visit [www.se-partners.com](http://www.se-partners.com) or contact Ed Powers at (970) 235-0078 or [ed@se-partners.com](mailto:ed@se-partners.com).

